

Schroders

SUSTAINABLE INVESTMENT REPORT

VOTING AND ENGAGEMENT AT A GLANCE

Our active ownership statistics from the quarter.

ACTIVE OWNERSHIP IN PRACTICE

Our priorities for 2022 and recent case studies.

COP26 IN REVIEW

Our climate commitments and reactions in a nutshell.

REGULATION: ESG POLICY ROUND-UP

The latest EU developments.

COMPANIES WE'VE ENGAGED WITH

Our interactions with businesses on ESG issues.

Marketing material

FOURTH
QUARTER
2021



Hannah Simons
Head of Sustainability Strategy

Sustainability is really coming of age. Policymakers around the world are making sure that it does.

As is clear from our [outlook](#) for sustainable investment, regulation is going to consume much of 2022 and there is still a long way to go. Which is why monitoring the regulatory landscape keeps our team busy ([read more on page 9](#)). The benefit, ultimately, should be disclosures that help end investors understand the sustainability of their portfolios.

Keeping track of climate developments and how the climate crisis is evolving is also keeping us busy. Our Climate Progress Dashboard tracker consistently shows the world is far off meeting Paris Accord targets and the outcome of the COP26 climate summit was bit of a mixed bag ([see page 7](#)). Climate will remain one of our key engagement priorities as we go into 2022 but we also plan to ratchet up the S and the G in our active ownership strategy ([see page 5](#)).

Finally, if you have three minutes to spare, we recommend watching our latest [MyStory](#) video. This video series showcases the impact investments can have on society, and [this one](#) from Kazuhiro Toyoda on how a company has reinvented recycling in Japan is one of my favourites.

OUR ENGAGEMENTS AND VOTING

ENGAGEMENT IN NUMBERS

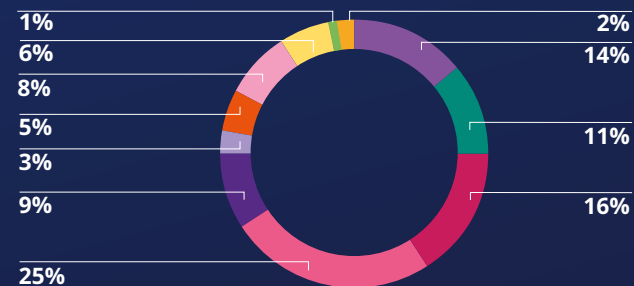
Tier

Our tiered approach to reporting allows us to capture the full scope of our influence.¹

	Tier	Scope	Number of engagements
Narrow scope	1	In-depth sustainability engagement	27
	2	Investor-led engagement	75
	3	Collaborative engagement and communicating expectations at scale	180
	4	Influence through actively voting all holdings and conducting company meetings	3,214
Broad scope	5	Industry and public policy involvement	Reported annually

Sector

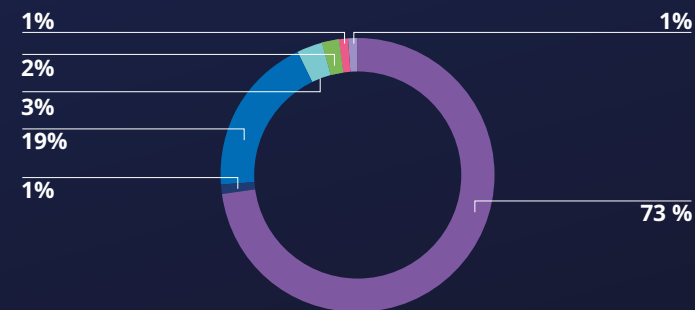
(Tiers 1-3)



- Industrials
- Information technology
- Consumer discretionary
- Financials
- Materials
- Utilities
- Energy
- Consumer staples
- Health care
- Real estate
- Telecommunication services

Format

(Tiers 1-3)



- Email
- Collaborative engagement
- One to one call
- Group call
- One to one meeting
- Group meeting
- Other



Region

(Tiers 1-3)

- UK 42%
- Asia Pacific 21%
- Europe (ex-UK) 18%
- North America 11%
- Latin America 4%
- Middle East and Africa 4%

Source 1: For more information please see our annual sustainable investment report
Data source: Schroders, 31 December 2021

OUR ENGAGEMENTS AND VOTING

VOTING IN NUMBERS

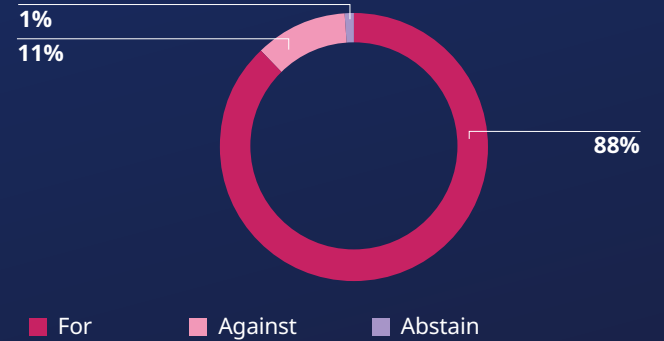
This quarter we voted on 1,039 meetings and approximately 99% of all resolutions. We voted on 23 sustainability-related shareholder resolutions, of which we voted with management on 12.

We believe we have a responsibility to exercise our voting rights. We evaluate and vote in line with our fiduciary responsibility to clients. We vote on all resolutions unless we are restricted from doing so, for example through share blocking.

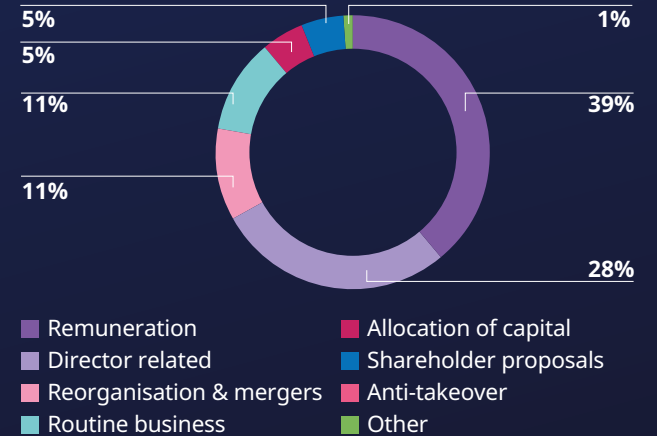


Region	Percentage
Asia Pacific	57%
UK	17%
Europe (ex-UK)	11%
North America	8%
Latin America	4%
Middle East and Africa	3%

Direction of votes



Category of vote against management



OUR ENGAGEMENTS AND VOTING

ENGAGEMENT PROGRESS

In the fourth quarter of 2020, Schroders undertook 36 requests for change classified as tier 1 engagements. The pie chart shows the progress we have made on reviewing these engagements in the fourth quarter of 2021.

The bar chart shows the effectiveness of our requests for change over a three-year period. We have found that typically at least two years of dialogue is required before our requests begin to materialise in the form of measurable change. It is for this reason that the two most recent years are omitted.

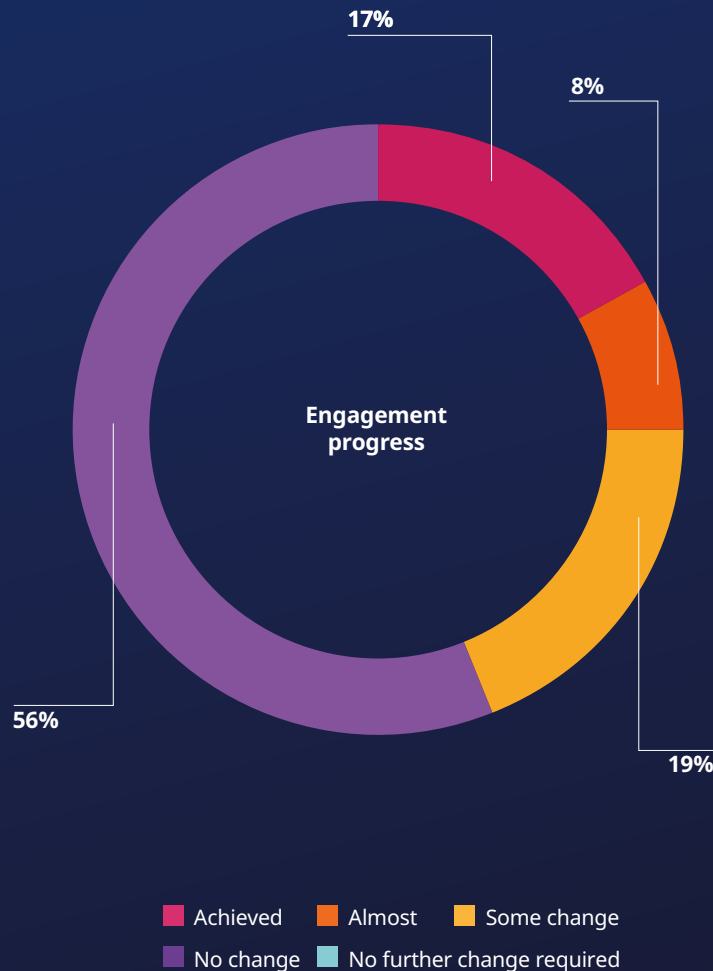
We record our engagement activity in our proprietary research database to facilitate the monitoring of companies in which we are invested. We define expected timeframes for targets, track progress and – if necessary – revise them.

In order to review progress on historical engagements they are categorised as “Achieved”, “Almost”, “Some change”, “No change” or “No further change required”. If no change is required it is usually because we have sold out of the position.

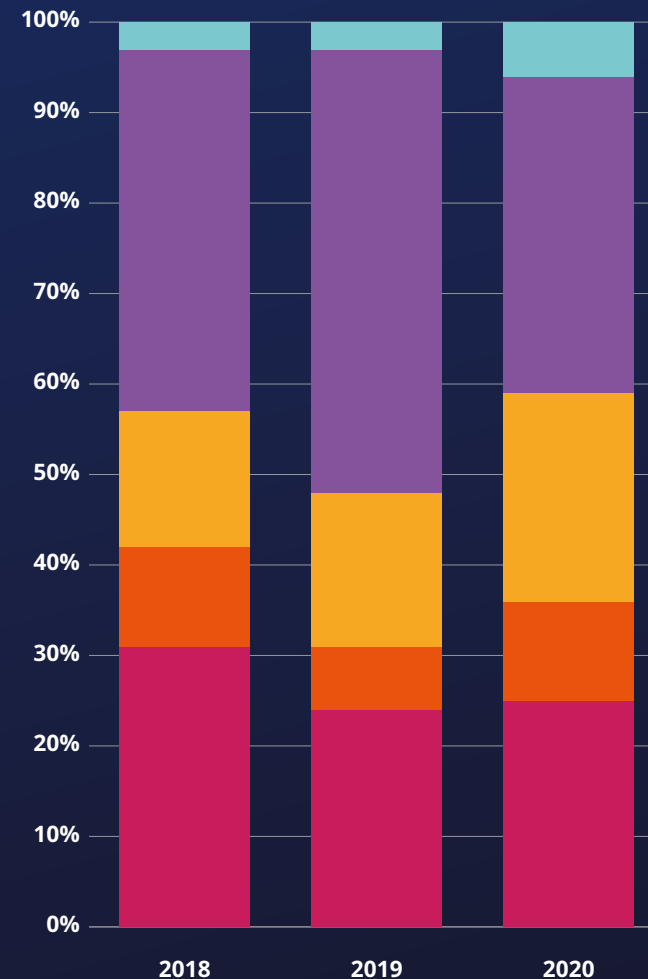
We typically review requests for change one year after they have been made and then on an ongoing basis. We will escalate where necessary.

Requests for change effectiveness

Engagement progress from Q4 2020



Three years: 2018 vs 2019 vs 2020



ACTIVE OWNERSHIP

SIX KEY THEMES FOR ACTIVE OWNERSHIP

The engagement priorities our team is focused on for this year.



Kimberley Lewis
Head of Active Ownership

1. CLIMATE

Climate action and transparency over climate commitments has been and will continue to be a key priority for us. We will be asking portfolio companies to establish targets, focusing on the most exposed companies.

Schroders has on that goal itself committed to transitioning toward net zero, and the influence we can apply through engagement will be critical to delivering that goal. Read more about our own climate commitments [here](#).

2. BIODIVERSITY AND NATURAL RESOURCE CONSTRAINTS

Human impacts on the environment are accelerating at an alarming rate and our research team is examining issues such as deforestation, sustainable food and agriculture and waste management. We will be using the insights of this research in 2022 to initiate engagement with companies and encourage them to disclose how they identify and manage material natural capital risks for their operations.

In 2022, we'll be initiating our own engagements and collaborating to encourage firms to disclose how material natural capital risks may affect operations.

3. HUMAN CAPITAL MANAGEMENT

Human capital management has been put under the spotlight throughout the pandemic but we have also seen longer-term trends over the last years towards a gig economy and non-traditional work patterns.

We consider effective stakeholder management to be essential for the long-term sustainability of companies' business models. That is why we will continue to engage with companies to ensure workers and other stakeholders are protected as far as possible.

4. DIVERSITY AND INCLUSION

In the past, the debate on diversity has been largely about gender representation at the company board level. Going into 2022, a main priority for us will be to expand this to the executive teams, management and the wider workforce and to cover all diversity dimensions including race, socioeconomic background and LGBT representation.

Read about the action we are already taking in the UK on [page 6](#).

5. HUMAN RIGHTS

We believe it is important to consider the theme of human rights through the lens of the impact that companies can have on workers, such as through the supply chain, and communities, as well as consumers through the products and services they provide.

We will engage to encourage and scale up the adoption of guidelines such as the UN Guiding Principles on Business and Human Rights (UNGPs) to prevent and address human rights abuses committed in business operations. We will also focus on other aspects of human rights such as digital rights and access to medicine.

6. GOVERNANCE

Underpinning all ESG themes, the sixth key theme we are focusing on in 2022 is governance.

We expect increased scrutiny of voting records and shareholder resolutions, especially on climate. Other trends include the rise of "Say on Climate" votes on AGM agendas, shareholder proposals on race issues and the growth in sustainability metrics in reporting.

We will continue to engage with non-executive directors to understand their viewpoint on these topics.



Andrew Howard
Global Head of Sustainable Investment



READ MORE:
Six key themes for active ownership

ACTIVE OWNERSHIP CASE STUDY

ETHNIC DIVERSITY IN THE UK

In 2016, the Parker Review of ethnic diversity on boards challenged firms to hit a “one by 2021” board target.

2020 PARKER REVIEW SURVEY:

96
of the FTSE 100 responded

52
companies had met the target for having at least one ethnic minority director on their board by 2021.

31
companies had not yet met the target of having at least one ethnic minority director on their board by 2021.

13
companies were unknown as they did not provide enough information.

WHAT IS SCHRODERS DOING?

From January 2022, we will begin to vote against the nominations committee Chair of any FTSE 100 company that did not meet the recommendation to have at least one director of colour by 2021.

We wrote to FTSE 100 chairs on the topic of ethnic diversity in November 2021 reiterating that we do not expect a “one and done” situation for board diversity. Progress should not stop here.

WHAT NEXT?

We will seek to understand the plans of companies failing to meet this target and will monitor progress. We may look to increase our expectations on board diversity in the future, particularly as we seek to ensure diversity in all its dimensions is reflected in the senior levels of companies in which we invest.



Andrew Howard
Global Head of Sustainable Investment



Kimberley Lewis
Head of Active Ownership



Katie Frame
Active Ownership Manager



ACTIVE
OWNERSHIP

COP26 IN REVIEW

Our climate assessment and reactions in a nutshell

SUCCESS OR UNMITIGATED DISASTER?

It was a mixed bag, as Andy Howard, Schroders' Global Head of Sustainable Investment, wrote [in this article](#). From the fact that for the first time coal and fossil fuels have been referenced in the language to a softening from “phasing out” to “phasing down”, there were highs and lows. One new and perhaps unexpected pledge was on deforestation.

LISTEN TO 🎧:

The Investor Download podcast episode
Good COP, bad COP here.

HOW DID SCHRODERS PLAY A PART?

Dame Elizabeth Corley, Schroders' Chair-Designate, set out the business' commitment to investing in natural capital on a panel at COP 26.

She announced Schroders had become a signatory of the Natural Capital Investment Alliance and also unveiled further commitments to forestry, such as becoming a member of the Forest Investor Club which was established at COP26.



WATCH MORE:

From Tuesday 2 November at the COP26 Leader's event Action on Forests and Land-use here.

WHAT ARE OUR CEO'S TWO REASONS FOR POST COP26 OPTIMISM?

“The investment industry must now seize the opportunity to step up, amid a mixed response to the outcome of COP26,” according to Chief Executive Officer Peter Harrison.

But developments in natural capital and carbon markets have given him cause for hope.

As he pointed out in [this article](#), if even a fraction of the \$100 trillion-plus managed by asset managers were channelled into natural capital markets, it would make a powerful contribution to mitigation efforts.

The investors who can identify areas with the greatest potential to become valuable, biodiverse projects can gain an investment edge. If sufficient scale can be achieved with the creation of natural capital markets, it will attract yet more investment.

HEAR FROM OUR INVESTORS

Net zero pledges, methane reduction targets and fossil fuel phase out commitments are just a few of the takeaways from COP26.

Our investors discuss how the outcomes could boost the energy transition [here](#) and consider the positives and negatives from the conference, [here](#).

Sustainable
Investment Team

WHAT IS OUR CLIMATE PROGRESS DASHBOARD TRACKER SHOWING?

The Climate Progress Dashboard examines progress across a wide range of areas to track the rate of progress toward the commitments global leaders made in Paris in 2015.

[The latest reading](#) points to a long run temperature rise of around 3.3 degrees over pre-industrial levels.

This is clearly well above the “below two degrees” target agreed by global leaders in 2015 and the subsequent “ideal” 1.5 degree goal.

WHAT NEXT?

Andy Howard has said: “In some ways the headline objective of COP, which was really to ratchet up the levels of ambition of individual countries, has been somewhat deferred through to 2022's COP in Egypt.”

COP27 is due to take place from 7-18 November 2022.

Though there are reports the Omicron variant of Covid-19 could throw a spanner in the works of the UN's spring (25 April – 8 May) conference on nature, COP15, we're also watching out for a proposed global pact to protect nature.

“A quiet revolution in environmental investment is underway. It will make a difference”

CEO Peter Harrison



ACTIVE OWNERSHIP CASE STUDY

NATURAL CAPITAL AND BIODIVERSITY

Our call to action over forest-related risks

Impacts of harmful deforestation range from the loss of carbon sinks and increased risk of drought to human rights impacts such as displacement of indigenous people and even health issues like zoonotic disease.

With around 80% of terrestrial biodiversity existing in forests, deforestation poses a critical threat. If tropical deforestation were considered a country, it would be the [third most polluting](#) country in terms of carbon emissions.

This is why the Sustainable Investment team is putting a focus on analysis and active engagement in this area.

WHAT DO WE KNOW ABOUT THE DRIVERS?

Examples include pasture for cattle, croplands for soy and palm oil and tree plantations for timber. More than half of global emissions associated with deforestation are the result of commodity-driven deforestation, according to the Intergovernmental Panel on Climate Change (IPCC). Beef and leather and then palm oil are the commodities accounting for the biggest share of greenhouse gas emissions from deforestation.



Catherine Macaulay
Sustainable Investment Analyst

WHAT IS SCHRODERS DOING?

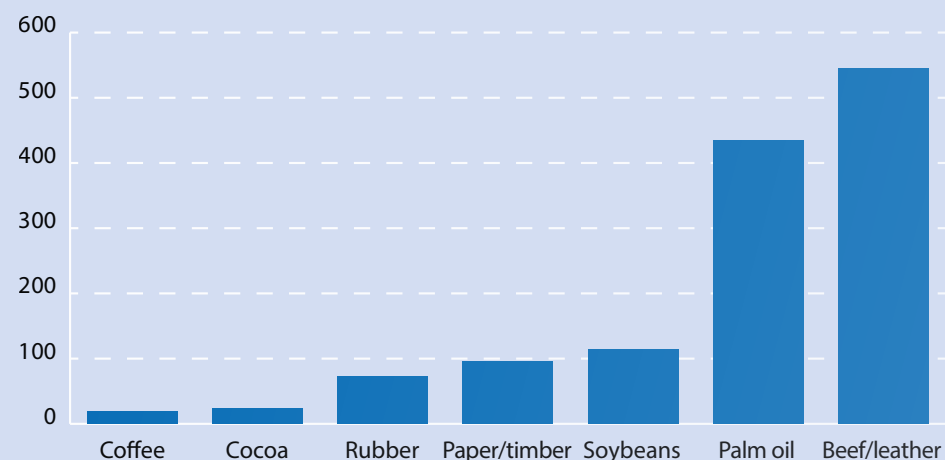
Our research and engagement priorities for deforestation centre on: companies' commitments and policies, governance and risk management, supply chain mapping and traceability, certification and targets and disclosures in line with emerging best practice.

We have built a scorecard that measures companies' exposure to and management of forest-related risks, using publicly available data from a range of sources. This scorecard will give a quantitative indication of company exposure and performance, which we can then build upon through dialogue with a number of key companies.

WHAT NEXT?

We will be calling on companies to increase their ambition and improve disclosure around forest-related risks. We hope to raise corporate awareness, encourage knowledge-sharing on best practice and increase transparency across industries that are exposed. We will seek to differentiate between leaders and laggards in this area to help investors form decisions.

Share of commodity-driven GHG emissions from deforestation per commodity (2017)



Source: Pendrill et al. (2019); Ceres

POLICY UPDATE

THE EVER CHANGING EU SUSTAINABILITY REGULATIONS

You have probably seen multiple headlines about delays in EU regulation, heated arguments on whether nuclear energy is “green”, and way too many references about technical standards that never seem to get finalised. What is going on?

It all started with the EU’s sustainable finance action plan. This is about creating a framework to accelerate the flow of private investment to activities that will make the EU economy greener. At the centre of it are disclosures and reporting.

“As of January 2022, asset managers have to show a number for their products’ alignment to a taxonomy that is not complete, using company taxonomy alignment data that does not exist.”



Anastasia Petraki,
Investment Director
Sustainability

THE POWER OF DISCLOSURES

The starting point and the base of everything is the EU Taxonomy that defines what activities are considered sustainable.

Companies use this framework and report on their sustainability as per the Corporate Sustainability Reporting Directive (CSRD).

Asset managers use the companies’ reporting to disclose the sustainability of their products as per the Sustainable Finance Disclosures Regulation (SFDR).

Financial advisers then use the asset managers’ disclosure for their discussion with end-investors to establish the latter’s ‘sustainability preferences’ as per the MiFID suitability test.

So you would be right to assume that this should be the order in which regulation is rolled out.

THE ORDER OF NEW REGULATIONS MATTERS

Alas, the EU Taxonomy has been delayed for various reasons, including a hefty debate among member states on whether nuclear and gas will qualify as environmentally sustainable activities. Company reporting will not kick in before 2023. And the technical details on how asset managers report on the sustainability of their products won’t apply before 2023 either.

But as of January 2022, asset managers still have to show a number for their products’ alignment to a taxonomy that is not complete, using company taxonomy-alignment data that does not exist. And from August 2022, advisers are expected to assess their clients’ preferences using the information that asset managers report, which is based on either incomplete or entirely missing data.

THE NATIONAL TOUCH

Another interesting complication is that some EU member states put their own extra touch or add new rules on top of the EU rules. We have seen this in France, Germany, Belgium, and Spain.

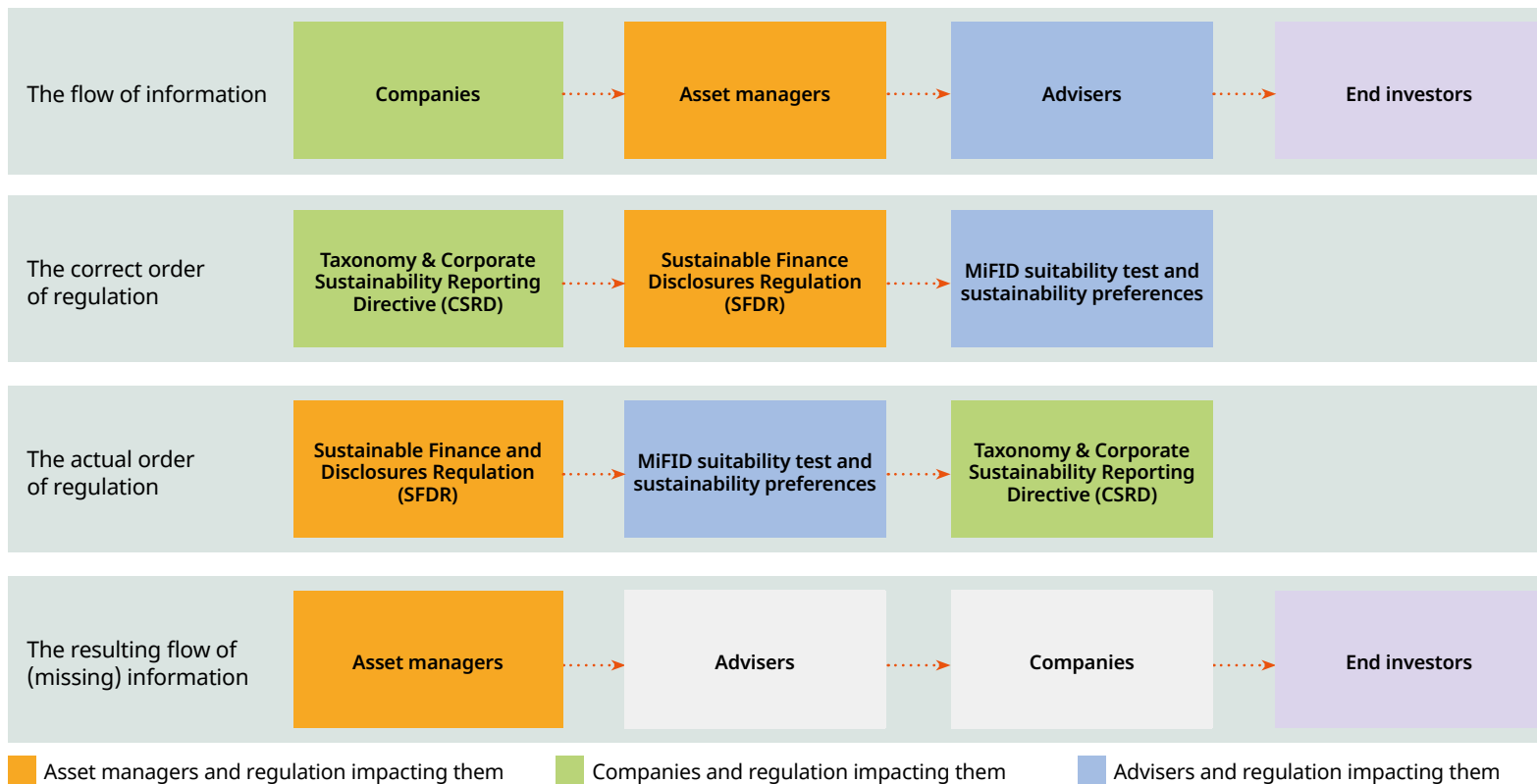
This partly ensues from an effort to interpret the EU rules in a way that makes oversight more straightforward given the continued delays and ongoing lack of clarity. Some of it relates to an attempt to distinguish (and perhaps protect) their respective domestic markets.

No matter what the reason is, the result is probably going to be the market fragmentation that the EU rules are trying to prevent.



POLICY UPDATE

The flow of sustainability information as it should be vs. as it will be



WHAT NEXT?

Will we end up with a meaningful disclosure framework and will it channel capital effectively? It remains to be seen.

One thing is for sure: this is much more complicated than anyone thought and we all have to plough through that complexity.

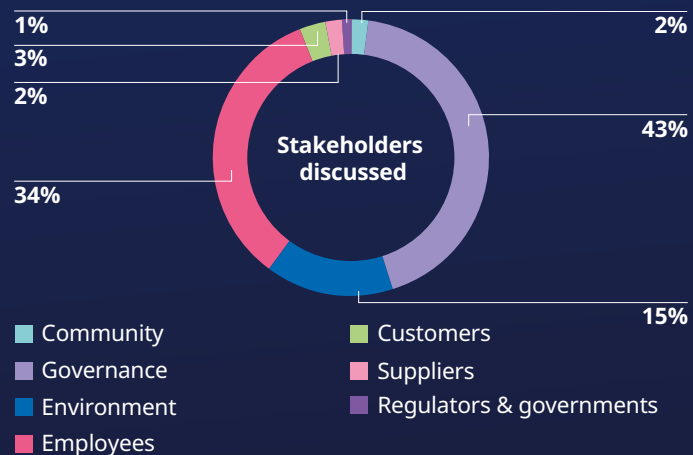


OUR ENGAGEMENTS
AND VOTINGCOMPANIES WE'VE
ENGAGED WITH

We undertook 282 Tier 1-3 engagements this quarter with the 262 companies listed. We show here whether we were tackling an environmental, social or governance issue with each. The chart shows how we categorised them by stakeholder, from employees and communities to governments and regulators. For further details about active ownership at Schroders, please contact your client director.

Stakeholder breakdown of engagements

(Tiers 1-3)



Company	E	S	G
Consumer Discretionary			
Barratt Developments		✓	
Berkeley		✓	
Burberry		✓	
Charter Communications	✓	✓	
Compass		✓	
Enero			✓
Entain		✓	
Etsy		✓	
Eutelsat			✓
Folli Follie			✓
Fuji Media Holdings			✓
Fuller Smith & Turner			✓
Guangzhou Auto			✓
Informa		✓	
Intercontinental Hotels		✓	
ITV		✓	
J D Wetherspoon			✓
JB Hifi			✓
JD Sports Fashion		✓	
Kia Motors			✓
Kingfisher		✓	
Lojas Renner			✓
McDonalds		✓	
Netflix			✓
Next		✓	
Nippon Television	✓	✓	✓
Ocado		✓	✓
Paddy Power Betfair		✓	
Pearson		✓	

Company	E	S	G
Pepco		✓	✓
Persimmon		✓	
REA Group			✓
RELX Group		✓	
Rightmove		✓	
Tabcorp			✓
TAKKT	✓		
Taylor Wimpey		✓	
Television Francaise 1 Group	✓		
Tesla Motors			✓
Whitbread		✓	✓
Woolworths			✓
WPP		✓	
Zalando	✓	✓	✓
Consumer Staples			
Aryzta			✓
Associated British Foods		✓	
Bid Corp			✓
British American Tobacco		✓	
Coca Cola		✓	
Danone			✓
Diageo		✓	
Estee Lauder			✓
Imperial Brands		✓	
J Sainsbury		✓	
Kroger	✓		
Pepsico	✓		
Pernod Ricard			✓
PZ Cussons			✓
Reckitt Benckiser		✓	

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Company	E	S	G
Shoprite		✓	✓
Tesco		✓	✓
Unilever		✓	
Energy			
BP	✓	✓	✓
Diversified Gas & Oil	✓		
Empresas Copec			✓
Eni			✓
Kinder Morgan	✓	✓	✓
Lundin Energy			✓
Neste Oil	✓		
Petrobras			✓
Petrofac			✓
Royal Dutch Shell	✓	✓	
Trafigura	✓	✓	✓
Tupras	✓		✓
Financials			
3i		✓	
Adler Group			✓
Admiral		✓	
Ageas	✓	✓	✓
Aviva		✓	✓
Banca Mediolanum			✓
Banco Santander			✓
Bank Hapoalim			✓
Barclays		✓	
British Land		✓	
Brookfield India	✓		
China Construction Bank	✓		
China Huarong			✓

Company	E	S	G
China Vanke			✓
Commonwealth Bank of Australia			✓
Credit Suisse Group			✓
Dexus Property Group			✓
Discovery			✓
Emaar Properties	✓	✓	✓
EQT Partners			✓
Goodman Group			✓
Habib Bank	✓	✓	✓
Hana Financial Group		✓	
Hargreaves Lansdown		✓	
HSBC	✓	✓	
Intermediate Capital		✓	
Intesa Sanpaolo	✓		
James River Group			✓
Kasikornbank			✓
Kb Financial Group		✓	
Land Securities		✓	
Legal & General		✓	
Liontrust Asset Management			✓
Lloyds Banking Group	✓	✓	✓
London Stock Exchange		✓	
M&G		✓	
Man Group			✓
Merlin Properties			✓
Mirvac Group	✓		✓
NatWest Group	✓	✓	✓
New World Development			✓
Nova Ljubljanska			✓
Pacific Current			✓

Company	E	S	G
Pershing Square		✓	
Phoenix		✓	
Ping An Insurance			✓
Platinum Asset			✓
Prudential		✓	
PZU			✓
Remgro			✓
Segro		✓	
Shinhan Financial Group			✓
Signa Development Finance			✓
St James's Place Capital		✓	
Standard Chartered		✓	
Standard Life		✓	
Sun Hung Kai Properties			✓
Sunlight REIT			✓
Swedbank	✓		
Tinybuild	✓	✓	
Unite			✓
United Bank	✓		✓
Vicinity Centres			✓
Health Care			
Alcon	✓		✓
AstraZeneca		✓	
Catalent			✓
Clinuvel Pharmaceuticals			✓
Dräger	✓		
EssilorLuxottica			✓
Fresenius			✓
Genus			✓
GlaxoSmithKline		✓	

Source: Schroders, 31 December 2021

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Company	E	S	G
Hikma Pharmaceuticals		✓	
Merck			✓
Novartis			✓
Qualicorp			✓
Sanofi-Aventis		✓	✓
Smith & Nephew		✓	
SomnoMed			✓
Industrials			
Airport Authority Hong Kong			✓
Alliance Aviation Services			✓
Ambipar			✓
Ashtead Group		✓	
B&M		✓	
BAE Systems		✓	
Beijing Enterprises			✓
Brambles			✓
Bunzl		✓	
DCC		✓	
Dormakaba			✓
Embraer		✓	
Experian		✓	
FedEx	✓	✓	
Gatwick Airport Finance			✓
Getlink		✓	
Go-Ahead Group		✓	✓
Hays			✓
International Consolidated Airlines Group		✓	
Intertek		✓	
Kier			✓

Company	E	S	G
Meggitt		✓	
Melrose Industries		✓	
Regal International Airport Group			✓
Rentokil Initial		✓	
Rolls-Royce		✓	
Royal Mail		✓	
Schneider Electric			✓
Senior			✓
Shenzhen Inovance Technology			✓
Sinopec Engineering			✓
Sinotrans			✓
Smiths Group		✓	✓
Spirax-Sarco Engineering		✓	
Transurban			✓
Weichai Power			✓
Wolseley		✓	
Information Technology			
Activision Blizzard		✓	✓
Ams	✓		
Auto Trader		✓	
Avast		✓	✓
Aveva		✓	
Avnet			✓
Besi			✓
Carsales			✓
Citizen Watch	✓		
Dark Trace		✓	
Dena		✓	✓
Facebook		✓	
Halma		✓	

Company	E	S	G
Huuuge		✓	✓
Ideagen		✓	✓
Integrated Research			✓
Intel	✓		
Lam Research			✓
Leeno			✓
Microsoft			✓
Oracle			✓
Praemium			✓
Sage		✓	
SES	✓		
Software	✓		✓
Superloop			✓
Ubisoft Entertainment		✓	✓
ViaSat		✓	
Vnet		✓	
Western Digital			✓
Western Union	✓		
Materials			
Anglo American		✓	
Antofagasta		✓	
BHP Billiton		✓	
Braskem Idesa	✓	✓	
Brickworks			✓
CRH		✓	
Croda International		✓	
DS Smith		✓	
Evraz		✓	
Fresnillo		✓	
Glencore		✓	

Source: Schroders, 31 December 2021

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Company	E	S	G
Impala Platinum			✓
Johnson Matthey		✓	
KGHM Polska Miedz	✓	✓	✓
Klabin	✓		
Mondi		✓	
Mount Gibson Iron			✓
Perseus Mining			✓
Polymetal		✓	
Rio Tinto		✓	
Sika	✓		✓
Simsmetal			✓
Smurfit Kappa Group		✓	
Vale	✓	✓	✓
Real Estate			
Allied Properties Investments			✓
Cousins Properties	✓		✓
Sunstone Hotel Investors			✓
Telecommunication Services			
BT		✓	
Telefonica	✓	✓	
Telstra			✓
T-Mobile USA	✓	✓	✓
Vodafone		✓	
Utilities			
American Electric Power	✓		
Australian Pipeline Trust			✓
China Longyuan Power			✓
Drax	✓		
Iberdrola	✓		

Company	E	S	G
National Grid		✓	
NextEra Energy	✓		
Scottish and Southern Energy		✓	
Severn Trent		✓	
United Utilities		✓	

Key

E – Environment

S – Social

G – Governance

Source: Schroders, 31 December 2021

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