Sustainable Investment Report

Second quarter 2020

Marketing material

Environmental, Social and Governance
is referred to as ESG throughout

Schroders

Contents

As we begin the process of unwinding global lockdown, the inevitable scrutiny of what we could have done better is underway. There are plenty of ways we can learn from the crisis and perhaps when the anticipated second wave comes, we will be better prepared. Sustainable investing has been under the spotlight throughout the crisis; we now look to what this might mean in a post-Covid-19 world.

Hannah Simons
Head of Sustainability Strategy

For many people, sustainable investment has historically focused on environmental considerations. The crisis has seen a rise in the focus on the 'S' part of ESG. We've long argued that companies need to look beyond profits to consider all of their stakeholders and the Covid-19 crisis has thrown companies' treatment of their stakeholders into sharp focus. Katherine Davidson, a portfolio manager in our Global Equity team, looks at the treatment of employees throughout the crisis. For many office workers, me included, the switch to home working was relatively straightforward and for many will have offered a welcome break from long daily commutes.

But not everyone has been able to work from home. We think of 'essential' workers as doctors and nurses but what about other 'front-line' staff such as supermarket staff, delivery drivers and many others critical to keeping the economy going? We ask 'how have they been treated?'. We continue our focus on employees with a closer look at the US meat processing industry. Concerns have been raised about working conditions in this sector. As a result of high infection rates, some companies have faced labour shortages which have had a knock-on effect to the supply of meat. Our Head of Engagement, Elly Irving, shares her insights on the situation and the engagement we have undertaken with some of the companies involved.

Whilst the crisis has elevated social considerations, we don't think that the previous focus on environmental considerations will be lost. COP 26 may have been postponed, but as the economy reopens, attention is being paid to green finance and the role this plays in building a better future. Our climate-focused article by Andy Howard, our Head of Sustainable Investment, and Simon Webber, one of the portfolio managers on our Global Climate Change strategy, considers how the crisis can be used to reset the climate agenda.

In a Q&A with two of our economists, Craig Botham and Irene Lauro, we also unveil our latest long-term market forecasts, which for the first time incorporate the impact of climate change.

In our last report, we gave an overview of the voting season that was about to begin. With the season largely over, one of the biggest differences from previous years was the use of 'virtual' annual general meetings (AGMs). A necessity this year given lockdown restrictions but our focus article on this topic by Anastasia Petraki, our Head of Policy Research, is clear that we don't think this should become a permanent fixture.

We frequently get asked to share examples of the engagement activities that we undertake. In this quarter's report we put the spotlight on some of our recent engagement with companies in the banking sector, a sector that is increasingly under the spotlight for its lending practices. We also share the engagement we undertook with Barclays, as it considered its response to the shareholder resolution filed on its lending policy to companies involved in fossil fuels. We also invite you to read about a site tour of one of the UK's largest power generators, Drax, in Yorkshire. Our sustainable investment analyst responsible for the energy sector, Holly Turner, shares her experience of a recent tour of Drax's power plant. Drax is an example of a company that has transformed itself. Today, it's Britain's largest renewable power generator having successfully transitioned away from coal. Our recent tour gave us the opportunity to understand what comes next.

We hope you find this report informative and insightful. Please keep up with our latest research on a range of topics from our dedicated sustainability web page.

A new social contract - how are companies treating their employees as the Covid-19 crisis unfolds?

Companies' treatment of their employees has been under intense scrutiny. This will intensify as lockdowns start to lift, and expectations of corporate behaviour are high.

Katherine Davidson
Portfolio Manager, Global & International Equities

The Covid-19 crisis has thrown companies' treatment of their stakeholders into sharp focus. The early phase of the crisis saw many companies focus on efforts to help wider society. Numerous firms, from distillers to automakers, repurposed production lines to make hand sanitiser, ventilators, or personal protective equipment (PPE). Meanwhile, others made donations – of products or cash - to healthcare research or social causes.

At the same time, companies that were deemed to be acting improperly have seen swift pushback. A prominent recent example is restaurant chain Shake Shack. After public rebuke, the company returned a $10 million government loan it had claimed from a US government programme designed to help small businesses.

We have written previously that we think a new social contract will emerge as the Covid-19 crisis changes relationships between companies and their stakeholders. The use of government support schemes, and the trade-off in terms of shareholder returns or executive pay is one example. The treatment of employees is another that has garnered increasing focus during the lockdown.

Frontline or breadline?

While many employees with desk jobs (including most investors) are able to work from home, it's a very different picture for those deemed to be essential workers.

This crisis has highlighted that there is a whole tranche of the labour market whose importance may have been previously overlooked – and is certainly not reflected in their pay. Supermarket staff, delivery drivers, warehouse personnel, and employees of food manufacturers and processors are just some of the new 'frontline' staff who are critical to keep the economy ticking over.

And while doctors and nurses are the new national heroes, there is growing awareness that the smooth running of health and care services also rely on so-called 'low-skilled staff' such as hospital porters, cleaners, and care home staff.

These employees are often working in environments where interaction with customers or patients poses a particular hazard. Companies in these sectors have faced fierce scrutiny over provision of PPE and safeguarding of staff.

Amazon, for example, has faced widespread protests over conditions for warehouse staff, despite spending $4 billion on safety measures. UK clothing retailer Next temporarily closed its ecommerce arm in March, enabling a redesign of warehouses for social distancing at the expense of significantly reduced capacity.

Widening the (safety) net

As economies gradually re-open, and a vaccine remains elusive, companies in 'non-essential' sectors will also need to consider these challenges. While governments and regulators will provide guidance, the onus is on companies to provide a safe environment for employees as well as customers. In a recent survey by JUST Capital, nearly 90% of respondents believe that companies should provide PPE, sanitise workplaces and institute social distancing.

The good news is that companies seem well-aware of their responsibilities – whether out of good governance or fear of public backlash. The chart below shows CFO responses to a survey carried out by PwC about their companies' back-to-work plans

The most urgent are measures to address specific safety issues related to the crisis. Offices, shopping centres and restaurants are rushing to find innovative solutions to social distancing requirements, from one-way systems to screens between tables.

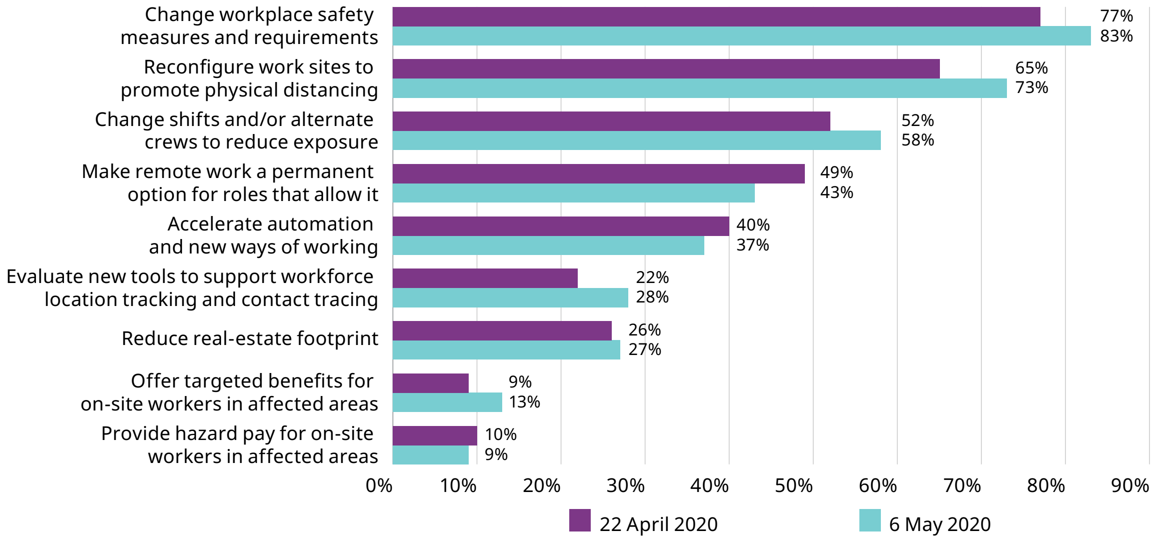
Others, such as remote and flexible working, look likely to be in place more permanently. A number of tech companies have already extended 'WFH' indefinitely, and Schroders' London offices remain tumbleweed territory despite relaxed government guidelines.

While easier for some industries than others, many workers have long desired greater flexibility, but perhaps been afraid to ask for it. Companies that embrace the new normal, and make the necessary investments in technology, are likely to be rewarded with a happier, more motivated – and potentially more productive – workforce. They will likely also find it easier to recruit. Even before the crisis, UK research found 70% of all employees say flexible working makes a job more attractive, rising to over 90% of millennials.

For more on what this could mean for cities, see Why global cities can still thrive despite Covid-19's impact

Beyond physical safeguarding, some employers have also taken steps to protect or improve employees' financial health. Many of the essential worker jobs mentioned above are low paid, especially in light of the potential health risks being borne.

Which of the following is your company planning to implement once you start to transition back to in-site work?



Source: PwC Covid-19 US CFO Pulse Survey. 22 April 2020: base of 305; 6 May 2020: base of 288. https://www.pwc.com/us/en/library/covid-19/pwc-covid-19-cfo-pulse-survey.html. 448820

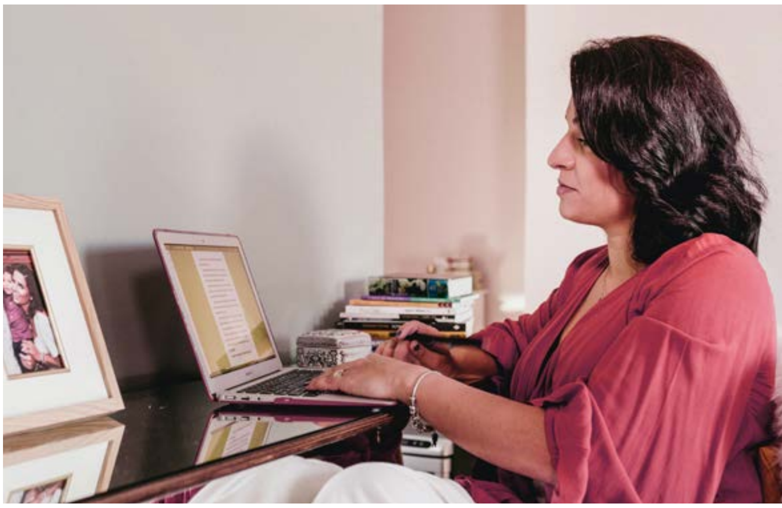
The chart below from JUST Capital considers the types of financial assistance being provided by the top 100 US public companies to their employees.

As we can see, the chart shows 20% have temporarily increased wages and 18% have paid a one-time bonus. Some companies in essential industries - including most UK and US supermarkets – have introduced "hazard pay" for frontline staff.

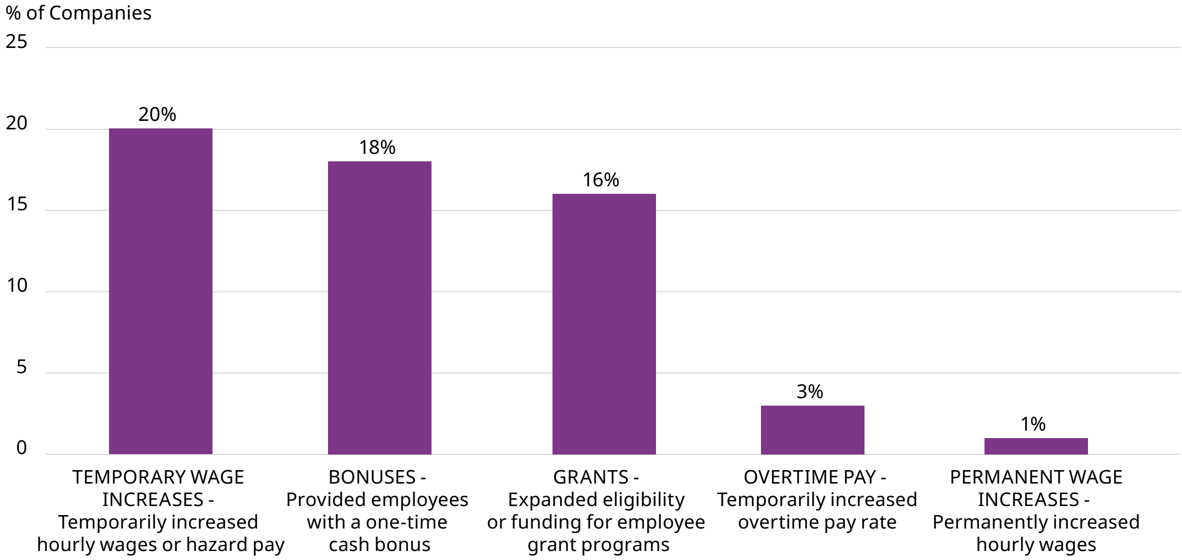
While undoubtedly welcome in a time of need, temporary "hazard pay" will do little in the long term to permanently lift wages at the bottom of the pyramid. Many companies are now facing criticism over schemes expiring at the end of May, while the health risks are still front-of-mind. Only 1% of JUST's 100 (i.e. one company – Charter Communications) has so far taken the step of permanently increasing wages. However, pressure from unions, regulators or customers may ultimately result in more of these temporary wage increases enduring beyond the crisis.

The Economist has noted that pandemics through history – from the Black Death to the Spanish flu – have generally resulted in a shift in returns from capital to labour in the form of much higher real incomes for workers. The mechanism, however, was brutal: by decimating the working age population, these crises increased the bargaining power of surviving workers. The economy today is obviously very different – and we certainly hope that the scale will be much, much smaller - but Covid-19 may come to represent a tipping point for rising inequality.

While we welcome this from an ethical point of view, as investors we must also consider how any wage increases would be paid for. Does the company have pricing power, enabling it to raise prices without denting demand or profits? This would be enhanced if there is public 'buy-in' for higher wages, implying a willingness to pay higher prices for goods from companies seen as acting responsibly during and beyond the crisis. Would employees become more motivated and more productive? Or would higher wages simply translate into reduced profitability and returns? Outcomes will vary by company and industry, making detailed analysis crucial.



What types of financial assistance are US companies providing to employees?



Source: JUST Capital's Covid-19 Corporate Response Tracker. Data as of 7 May 2020. 448820

Update: Top 20% ESG ranked stocks continue to outperform broader US market

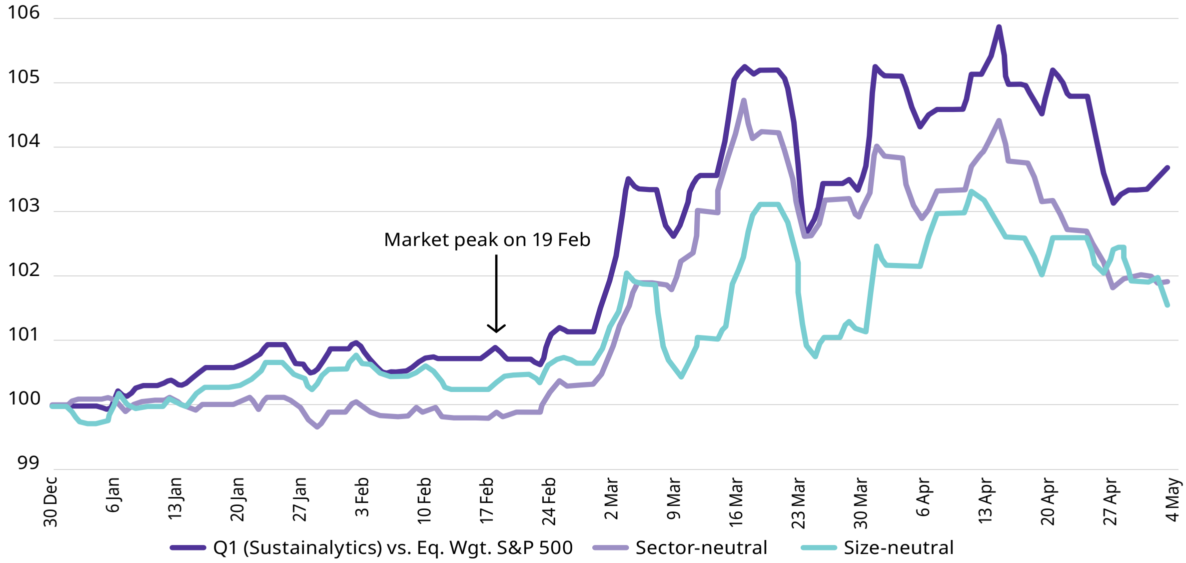
The Covid-19 crisis will have long-term ramifications and it will take some time for the impacts to play out in share prices. However, to date the evidence for US equities (see chart below) has supported our conviction that responsible companies should be more resilient in a downturn and outperform over the cycle.

Since we discussed this in March, we have seen the 20% of stocks with the highest ESG (environment, social, governance) scores continue to outperform the broader US market. The outperformance has been less marked than in the initial market falls as we have seen a rotation into higher-risk and more economically-sensitive stocks, but remains material.

This is partly because ESG leaders have so far seen smaller earnings per share (EPS) downgrades than ESG laggards, as shown in the chart below. Since March, the scale of the downgrades has risen significantly for both groups, but the difference remains evident.

This continues to support our view that companies which are the most sustainable will outperform their less sustainable peers over the long term. As investors, we focus on identifying those companies that have the best potential for sustainable growth, underpinned by strong relationships with their stakeholders.

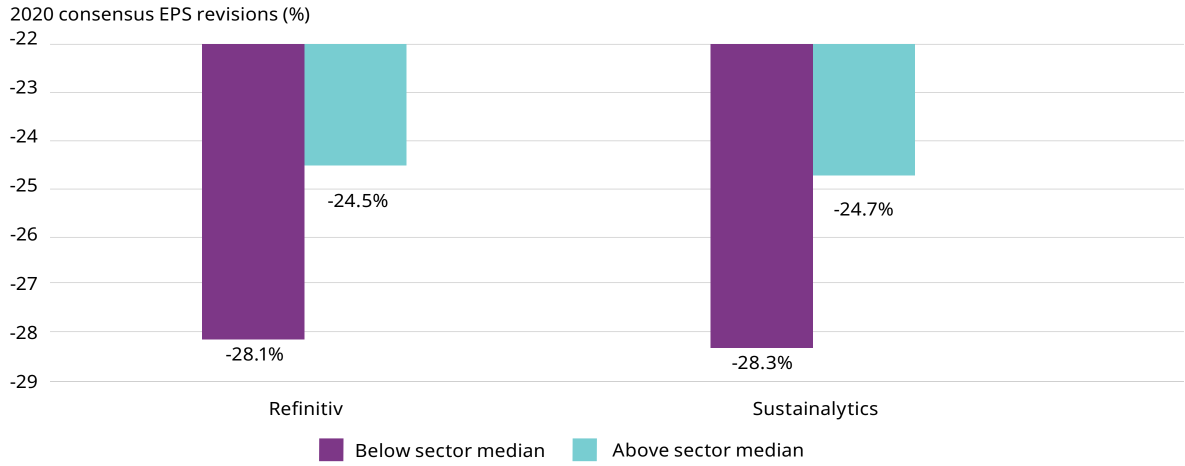
Top 20% of ESG ranked stocks have outperformed broader US market



Source: Sustainalytics, FactSet, BofA US Equity and Quant Strategy, 5 May 2020. 448820

Past Performance is not a guide to future performance and may not be repeated.

Companies with lower ESG scores have seen larger EPS cuts



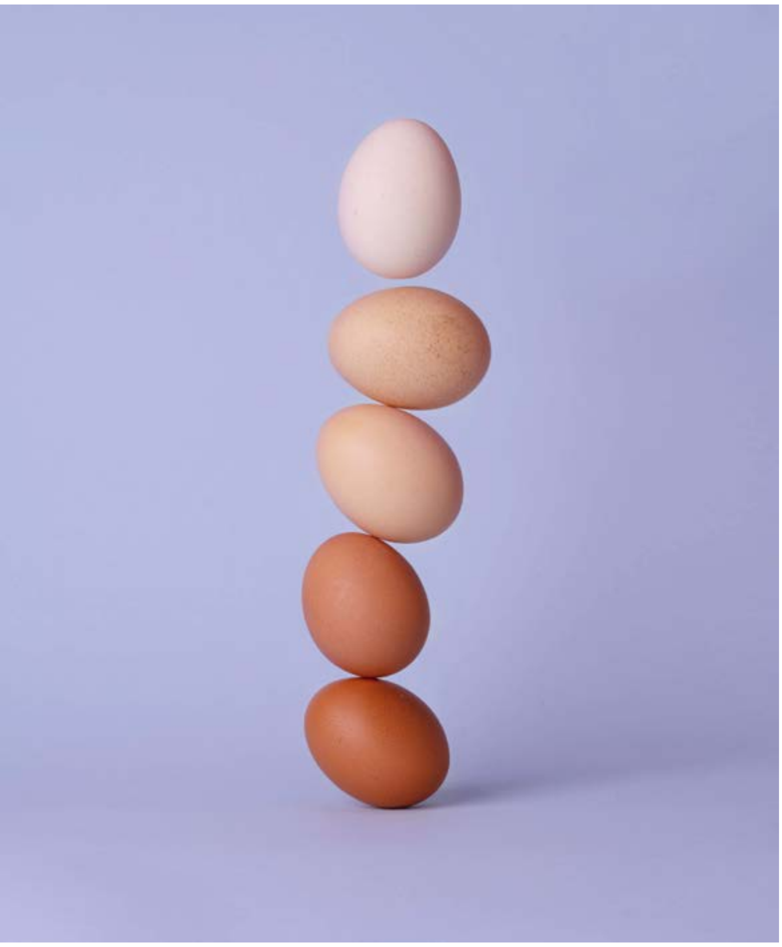
Source: Refinitiv, Sustainalytics, IBES, BofA US Equity and Quant Strategy. Chart shows consensus earnings per share revisions for the current year 2020, made between 19 February and 5 May 2020. 448820

The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested.

Keeping food on the table during Covid-19, but at what cost?

Since the beginning of the crisis we have been tracking company behaviours and attitudes towards stakeholders, covering just under 500 companies globally. Our approach to the US meat processing industry is one example of how we're using this information to tackle various issues in stakeholder treatment.

Elly Irving
Head of Engagement



The US meat processing industry has found itself at the centre of media attention in recent months. Numerous Covid-19 outbreaks at plants across the country have raised concerns about working conditions for employees while smaller processing workforces as a result of high infection rates have had a knock-on effect through the supply chain.

Questionable working conditions

Even before the coronavirus pandemic hit the US meat processing industry, employee review sites like Glassdoor revealed commonly cited frustrations of repetitive work, demanding pace of processing lines, questionable working conditions and long hours.

From early March 2020, these same workers had an additional complaint; would going into work put them at direct risk of catching Covid-19? News stories reported alarming infection rates with the workers of one meat processing firm accounting for 55% of infections for an entire state[1] and 20,000 meat workers across 216 US plants have becoming ill with COVID-19[2].

Assessments of worker safety practices employed by the industry confirmed that the sector was under strain; FAIRR[3] published a pandemic risk index grading 73% of the world's 60 largest meat, fish and dairy companies 'high-risk'[4].

Waste not want not

The knock-on impact through the rest of the meat supply chain has been dramatic. While the US president took executive action to keep factories open and food supplies flowing, the closure of numerous meat processing and food packaging sites has resulted in a small workforce supplying the industry. Closures at beef and pork packing plants have reduced US daily meat production by as much as 40%. Although plants are beginning to reopen, most are not running at full capacity due to absenteeism, fewer shifts, or the reworking of shifts to allow for better social distancing. This has led to lower plant capacity, meat shortages and higher grocery prices.

1 Coronavirus at Smithfield Pork Plant: The untold story of America's biggest outbreak, BBC, April 2020
2 An industry infected, FAIRR, June 2020
3 FAIRR, Farm Animal Investment Risk and Return
4 FAIRR Pandemic Risk ranking

Figure 1: Wasted animals

Poultry	Beef/Dairy	Pork
Sanderson farms **destroys 750,000 unhatched eggs**, or 5.5% of it's total production, sold instead as pet food.	Dairy Farmers of America, estimates that farmers are dumping as many as **3.7 million gallons of milk each day**.	**13,000 pigs a day** will be killed at a JBS SA slaughterhouse in Minnesota, with carcasses dumped in landfills or sent to rendering plants.
A large US chicken processing company was forced to **kill 2 million** of its chicken due to workforce shortages.	In the UK an estimated **1 million litres of milk** a day is being dumped.	Iowa expects producers to be forced to **cull 700,000 pigs per week**.

Source: An Infected Industry, FAIRR, June 2020

At the same time, grocery demand for meat has surged. No longer able to dine out (the average American eats 50% of their meals away from home[5]), grocery sales have shot up dramatically with the industry unable to keep pace on the supply side. This has resulted in enormous food waste with farmers forced to cull animals that slaughterhouses couldn't process.

This undoubtedly marks the industry's most dramatic shift in history. While this industry disruption may provide investment opportunities in the longer-term, in the near term the negative impact on both employees and local communities undermines any investment gains from increased meat demand. After detailed analysis, our US Small Cap team have chosen to minimise its exposure to the sector.

How has Schroders responded?

We joined forces with 20 other investors from across the US and Europe to collectively raise our concerns at two of the largest US meat companies in which we have been long-term bondholders; JBS and its listed subsidiary Pilgrim's Pride. In this instance, a collective approach was the most efficient route to getting management's attention and we were offered a call with the Chief Executive Officer and Chief Financial Officer of the company's US business. The call was held just after an investor call outlining the company's response to the pandemic and so allowed our collective group of sustainability-focused investors to drill into greater detail and push the company on areas where we believe more work still needs to be done.

While in hindsight risk may have been minimised with a faster response, we were reassured with the 1,000 process changes made since mid-March. These included altering shift patterns, providing personal protective equipment (PPE) and temperature checks, changes to the physical layout of processing plants, extending processing times and hiring 500 additional cleaning staff on the factory floor and a raft of specialists, including epidemiologists, to advise on strategy to minimise infection risk.

We collectively pushed for greater transparency on infection rates within the workforce, extending testing, which currently covers 25% of the workforce and finally, greater transparency on changes to worker pay practices including sick leave.

While speaking to management provided us with some reassurance, we will continue to monitor the company and wider industry.

5 Source: USDA, Economic Research Service Food Expenditure Series

Sustainability Insights

Will Covid-19 prove a pivotal moment for climate change?

Andrew Howard
Global Head of Sustainable Investment

Simon Webber
Global and International Equities

While the immediacy of the current crisis is rightly drawing policymakers' energy, climate change potentially poses a bigger threat. With the 26th Conference of the Parties (COP26) on the horizon, Governments should use the current crisis to set a new direction in climate policy and a new leadership ambition.

Climate change could be a bigger threat than this crisis

The ultimate death toll from the Covid-19 pandemic has already reached the hundreds of thousands. As devastating as that is, the effects of climate change on health and mortality are potentially more drastic.

The World Health Organisation has estimated that, between 2030 and 2050, unabated global warming will cause an additional 250,000 deaths annually from heat stress, malnutrition, malaria and diarrhoea. The economic impacts of climate change will be similarly severe in the long term.

The climate challenge has not generated a response that registers on the same scale as the recent response to Covid-19. Major global economies have announced stimulus packages totalling more than $15 trillion. That scale of fiscal intervention is about twice as large as the combined firepower those countries mustered in response to the global financial crisis.

In this context, it also represents more than ten times the annual global spending on efforts to mitigate climate change by the world's governments.

Political leadership has driven behavioural change

The threat posed by the virus has underlined the importance of strong political leadership. Presented with a clear and identifiable threat, and firm political leadership, societies have responded quickly.

From a purely climate perspective, there have been benefits from this behavioural change. It looks likely that 2020 will mark the fourth year in three decades in which global emissions fall, and it will quite possibly be the largest reduction ever seen.

This is a welcome benefit to companies with long-term climate objectives. We have seen a recent uptick in corporate planning, activity and targets around climate change, but as industry and transport ramp up again and global carbon emissions rebound, it will be critical to hold companies to account. Targets such as "net zero carbon emissions by 2050" should be supported by near-term milestones and clear plans to reduce their footprint that we can hold companies accountable to.

A long way off climate goals

The Schroders Climate Progress Dashboard provides an objective measure of the speed and scale of climate action. The current headline temperature rise implied by the dozen drivers examined points to a long run temperature rise of 3.9 degrees over pre-industrial levels.

Two major changes offset each other in the first quarter of 2020:

- Average global carbon prices plummeted, touching €15/ton, and stand at a level consistent with global temperatures rising just over four degrees, we estimate.
- A sharp contraction in the level of fossil fuel capital investment late in 2019 and early in 2020 left the industry on track for production growth consistent with long run rises around 3.6 degrees.

Growing pressure to take action

The ingredients for action are in place. Public concern over climate change is comparable with coronavirus fears. A UK survey in mid-March showed significantly more respondents were worried about the impact of climate change than of coronavirus on humanity. In the US, surveys in recent years have consistently shown as much or more concern over climate change than for pandemic outbreaks.

The choices political leaders make in the next few months will be important. They have an opportunity to use the window presented by the current crisis to inject similar urgency into climate policy and accelerate the transition to a low-carbon economy.

This comes at a crucial moment with the impending conference of the parties, COP26, where national leaders are expected to return to the table with tougher commitments on climate change, closing the gap between shared ambition and their individual actions. It will be a focus for political commitments, corporate targets and social pressure.

The crisis has the potential to reshape the market's perspective of climate change. We are witnessing stronger conviction that political leaders will take the steps to drive decarbonisation through their renewed commitments at COP26. If they do so, particularly in more challenging areas – such as heavy industry or air travel where adaption will prove costly – this could create a permanent shift in the market's perception of the risks climate change poses and the opportunities it will create.

How climate change may impact financial markets

For the first time, we have incorporated the impact of climate change on our 30-year return forecasts. The results emphasise the importance of an active approach.

Craig Botham
Senior Emerging Markets Economist

Irene Lauro
Economist

What are these forecasts?

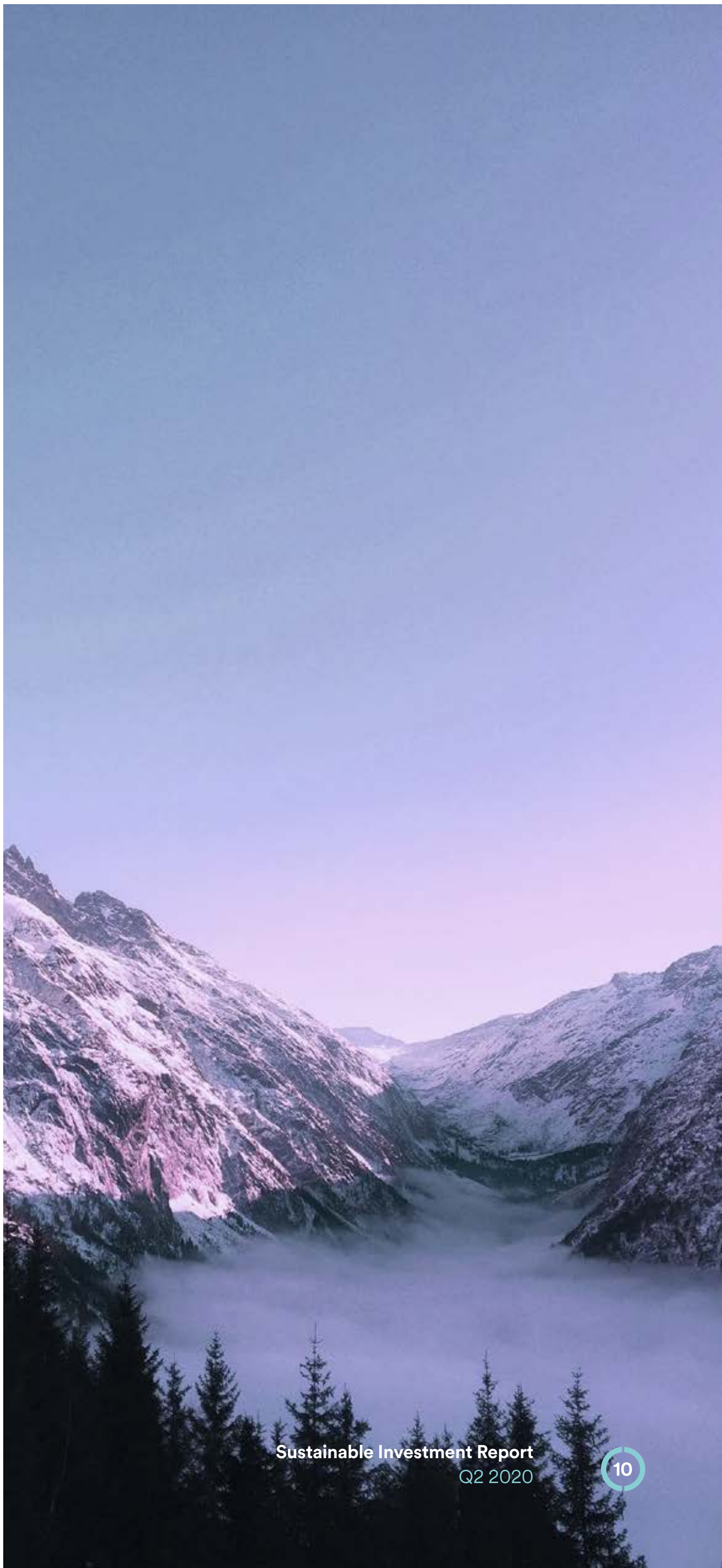
Each year Schroders' economics and multi-asset teams join forces to produce 30-year return forecasts for a range of asset classes around the world. Until now, these forecasts have been agnostic on the subject of climate change; there have been no adjustments for the costs associated with global warming.

Can you explain briefly how you calculated the economic impact of climate change?

We used three steps. The first step is a focus on what happens to economic output as temperatures rise, which we will refer to as the 'physical cost' of climate change. The second considers the economic impact of steps taken to mitigate those temperature increases. This is the 'transition cost'. Finally, we adjust for the effects of "stranded" assets. This is where we take account of the losses incurred where oil and other carbon-based forms of energy have to be written off, as it is no longer possible to make use of them, such that they are left in the ground

Why have you only just introduced the impact of climate change into your process?

The quantity and quality of academic research on the economic effects of climate change has increased markedly. As an example, economists Marshall Burke and Vincent Tanutama published a paper in 2019 that looked into the relationship between rising temperatures and economic output, using an extremely granular data-set on both temperature and output growth. We were able to feed their findings, and the research of other economists, into our return predictions.



What were their findings, broadly speaking?

Burke and Tanutama found that rising temperatures are more harmful to economic productivity in countries that are already warmer. The effect was found to be similar in rich and poor countries, suggesting that economic development does not yield much protection against climate change. However, they noted that poorer countries are generally starting from a higher base temperature and so face greater economic losses from climate change.

Why does temperature affect economic output?

The optimal average temperature for an economy is said to be 10 to 12 degrees Celsius. Much warmer or colder and it just becomes harder for people to do things. With temperatures much above 35 degrees, for example, the human body simply cannot function for long. High or low temperatures also negatively impact crop yields. They also add to the cost of production through heating or air conditioning costs.

Low temperatures can also bring infrastructure to a standstill, as we see in the UK virtually every time it snows. Some countries such as Canada and Russia, for example, are actually benefiting already from a warmer world as the Arctic becomes more navigable.

How does it affect the 30-year return forecasts?

As goes economic productivity, so go our return forecasts. Our forecast shows warmer countries lose out in a warming world, while colder countries see increased returns.

Which countries are worst affected?

There are reductions in expected returns for hotter countries. India is the worst affected, feeling both the productivity hit of rising temperatures and the large potential cost of carbon pricing.

Over the next 30 years, inflation-adjusted returns from India's stock market are forecast to be 6.2% per annum without climate change. With climate change, returns are forecast to be 2.3% per annum.

Among the other worst hit markets are Singapore and Australia.

Which stock markets might benefit?

For investors in Switzerland, Canada and the UK, climate change may actually boost returns from their domestic stock markets, according to our forecasts.

Annualised inflation-adjusted returns from the Swiss stock market over the next 30 years would be 4.1% without any climate change, but 5.4% with climate change. In Canada, the respective numbers are 4.4% and 5.4%, while in the UK they are 5.7% and 6.0%.

Does this mean these countries should do nothing about climate change?

Most certainly not. Although this paints a positive picture in these countries for the next 30 years, the longer term picture is of further increases in temperature and more widespread economic losses. The analysis also focuses on economic impact and market returns, not the many other negative side effects of global warming. This is in no way an endorsement of standing still on climate change.

How could bonds be affected?

The stock market story is mirrored in the bond market, with Canadian and UK government bonds the main beneficiaries. UK corporate bonds and inflation linked bonds are also significantly upgraded as a result. Singapore, Australian and Asian government bonds are particularly negatively affected.

The forecasts included should not be relied upon, are not guaranteed and are provided only as at the date of issue. Our forecasts are based on our own assumptions which may change. We accept no responsibility for any errors of fact or opinion and assume no obligation to provide you with any changes to our assumptions or forecasts. Forecasts and assumptions may be affected by external economic or other factors.

Stewardship Insights

Is the time ripe for virtual AGMs?

The second quarter (April – June) is usually the time when companies hold their annual general meetings. But this year, lockdown restrictions as a result of Covid-19 mean that shareholders may be prevented from travelling to and attending such meetings.

Anastasia Petraki
Head of Policy Research

There is increasing talk of "virtual AGMs" to address this problem and there are already calls for a permanent change to the AGM format. We recognise that virtual AGMs are going to be a necessity under this year's exceptional circumstances but do not think that this should be permanent.

Desperate times call for virtual measures

From a purely technical point of view, AGMs are for companies to get approval from their shareholders on a number of issues, such as to approve the annual accounts, elect company directors, etc. But, beyond the technicalities, the AGM is a forum where any shareholder, no matter where they come from and how many shares they own, can meet the managers of the company face to face and ask them questions.

The share ownership profile of companies has shifted in the last couple of decades from small holdings spread across many individual investors to larger holdings among a smaller number of institutional investors (including asset managers). Hence, the reality nowadays is that AGMs are mostly attended by few individual investors while the larger institutional shareholders are more likely to have filed their vote in advance of the AGM and met company executives in person during the year. This is, after all, part of their stewardship responsibilities but it also means that they are less likely to attend the AGM.

Low AGM attendance and significant technological advances have already made people question whether physical AGMs are still needed. Even without Covid-19 complications, having an AGM is expensive; companies need to hire a venue, arrange for catering and possibly make travel arrangements for board members. They have every reason to minimise unnecessary cost and a virtual AGM may seem to make economical sense anyway.

Before Covid-19, virtual AGMs were more common in the United States than elsewhere in the world, since – contrary to other countries – in most States, companies can hold hybrid or virtual-only meetings without having to seek shareholder approval first. Following Covid-19, various jurisdictions, such as Germany and Australia, implemented changes to regulations to allow for virtual AGMs and the results have been striking. According to ISS Analytics, there have already been 3900 virtual AGMs in 2020.[6] The US leads the way, accounting for 57% of them (see chart below).

To put this into perspective, there were 286 virtual AGMs globally for all of calendar year 2019.[7]

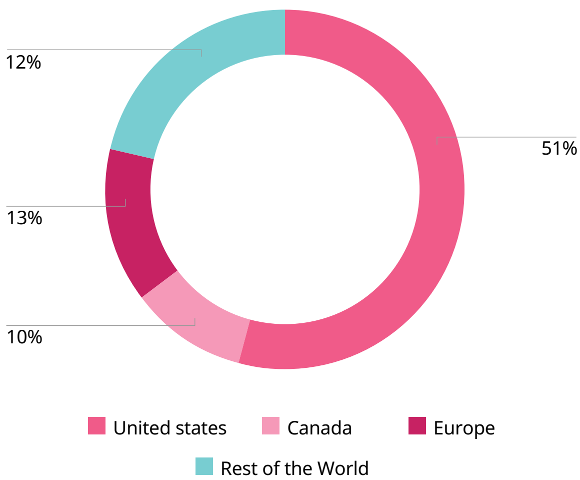
Not a virtual shareholder

As a company which itself is trying to navigate these extraordinary times, looking after the money we manage on behalf of clients remains our top priority. Holding our investee companies to account is one of the most important tools we have at our disposal.

It is our view that, as an exception, companies can hold virtual-only AGMs this year but we see this as a one-off occurrence and not as a permanent change in the way AGMs are held.

We recognise that technology can be cost-efficient and actually facilitate access to shareholders who cannot attend in person. Virtual can complement but should not replace real access. Physical AGMs are necessary for company accountability for four reasons.

Proportion of virtual AGMs by region in 2020



Source: ISS Analytics as of 13 May 2020

6 Number as of 13 May 2020. Source: [ISS Covid-19 Response Center]
7 ISS, [Annual General Shareholder Meetings & COVID-19 Update], May 11, 2020

Escalation

A physical AGM practically provides a platform for all shareholders to raise questions or concerns and, generally make any statement in public. A virtual-only AGM where questions and comments can be moderated may reduce the amount of unfiltered remarks that are recorded in public thus blunting this escalation tool.

Shareholder democracy

Large institutional shareholders generally have both the capacity and the resources to meet company executives and their board in person throughout the year. It is very hard for smaller shareholders to have this type of meeting and get access to company executives outside the AGM. The AGM is the only time when a company and all of its board is accessible and accountable to every shareholder.

It is not enough for us if only Schroders and other major shareholders are able to access a company and cast votes. Every single investor should be treated equally and be able to raise a question at a point in time when companies cannot hide behind technology.

Shareholder collaboration

A physical AGM allows investors to identify the views of other investors attending the same AGM and register agreement or even disagreement. We do not think that this would translate well, if at all, in a virtual-only AGM where shareholders are effectively isolated from each other. This may make it much easier for companies to push back against or even dismiss what may appear to be singled-out concerns.

Understanding company culture

Company culture comes from the top and it is an important, albeit intangible, factor for company success (and therefore, client value). There is a lot to be inferred from having a company's executives and board present themselves and the company, and how they react when confronted with challenging questions or uncomfortable facts.

A virtual-only AGM that allows for questions to be vetted - or gives enough time to moderate the first reaction - may communicate a very different culture than the real one.

The case for 'old-school' AGMs

It is true that large institutional investors, including asset managers like Schroders, do not usually attend AGMs. This is because they have the chance to hold companies into account outside the AGM and have the systems in place to cast their votes in advance of the AGM. It is also true that AGMs are nowadays mostly attended by small, individual shareholders whose voting is less likely to affect the outcome.

As the low (by historical standards) shareholder attendance may well go down to zero due to the Covid-19 restrictions, companies will look to technology and regulatory response to allow virtual-only AGMs. This is certainly the case for this year's AGMs but could set a precedent and serve as a paradigm for future years.

We appreciate this year's extreme circumstances and believe a flexible approach that combines virtual and physical meetings can be taken. We do not see this as a permanent change as we consider physical AGMs to be critical for all shareholders' ability to hold companies to account. Being in the room and seeing company executives in person, allows even the smallest shareholder to have a voice even if they don't actually say anything.

Stewardship Insights

Engagement in practice: Barclays' climate shareholder resolution

Sustainable Investment team

Barclays came under pressure on its approach to climate change earlier this year when the bank received its first ever climate-related shareholder resolution, filed by charity campaign group ShareAction. The resolution sought to put pressure on banks and their financing of fossil fuel companies.

We engaged directly with Barclays ahead of the AGM on our climate-related concerns as this was our preferred option. We embarked on a series of discussions with senior leadership bilaterally and through supporting collaborative efforts. Barclays maintained a constructive conversation, acknowledged weakness on its side and was open to challenge. Out of this, Barclays committed to the following by filing their own resolution:

That to promote the long-term success of the Company, given the risks and opportunities associated with climate change, the Company and the Directors be authorised and directed by the shareholders to:

1. Set an ambition to be a net zero bank in Scopes 1, 2 and 3 by 2050, in line with the objectives of the Paris Agreement.
2. Set, disclose and implement a strategy, with targets, to transition its provision of financial services2 across all sectors (starting with, but not limited to, the energy and power sectors) to align with the goals and timelines of the Paris Agreement.
3. Report annually on progress under that strategy, starting from 2021, including a summary of the framework, methodology, timescales and core assumptions used, omitting commercially confidential or competitively sensitive information, and at reasonable cost.

Our conversations have involved portfolio managers, financial and sustainable investment analysts from our side. This enabled the bank to receive a joined-up message on the need for action but for us to have realistic conversations about the business implications and roadblocks. From the discussions that we have had with Barclays, the company is confident it will be able to manage the profit impacts of decarbonising along the lines of its proposed resolution.

Barclays' resolution sets a new precedent

In establishing an ambition to be net zero by 2050 Barclays is setting a new precedent for a major bank. Furthermore, the net zero ambition will cover all of its portfolio, not just lending. While the timeline is a long one, our conversations have indicated that Barclays understand the necessity of providing clear detail and timelines, hence the commitment to report annually on this.

The second ambition is to align all of their lending with the goals and timelines of the Paris Agreement. We are particularly supportive of this, and believe that it goes further than the request of the ShareAction resolution, which is just focused on energy and utilities. Our analysis has demonstrated that some of the most significant challenges for decarbonisation occur in sectors such as transport and building materials. Encouraging all of their borrowers to transition has the potential to have a real positive benefit.

Importantly, Barclays will be tightening its policy on coal considerably and outlining the progress that it intends to make on oil sands. Through the engagement it is clear that Barclays is already acting on this, opening up a number of very difficult conversations with senior stakeholders on issues like oil sands.

ShareAction resolution played important role

While our preference is for dialogue, we did give consideration to the ShareAction resolution. Overall we feel that Barclays' resolution, which uses terminology around "transitioning", is more pertinent than ShareAction's around "phasing out". It is a more accurate reflection of the challenges that many businesses will face in delivering on the goals set out in the Paris Agreement. The challenge is for existing business models to reinvent themselves for a low carbon future, and banks can play a vital role in enabling this to happen.

The ShareAction resolution had a couple of unintended consequences. By taking a sector approach Barclays would have been limited in advising companies who wanted to transition on issues like divestment or making acquisitions in renewable eras. In addition their sector categorisation was a blunt one, and could mean some carbon intensive companies slip through the net.

Recognising the pivotal role that ShareAction played, but keen to support a management team that had come along way in a short space of time, we opted to abstain from ShareActions's resolution and support Barclays'. At the annual general meeting in May 2020, Barclays' resolution received over 99% support against 24% for ShareAction's.

We continue to engage with a number of businesses on their long-term plans around climate change, amongst other ESG issues, and welcome companies to start a conversation with us.

Any references to securities is for illustrative purposes only and not a recommendation to buy and/or sell.

Stewardship Insights

Engagement in practice: Contributing to influencing the boards of big banks

Sustainable Investment team

Companies that want to understand how social and environmental change is impacting their business and conduct honest assessments on how they are progressing, need commitment and vision from the very top. While it is often easy for boards to say that they want to do the right thing, we are looking for change that is more than skin deep. We want to see a real willingness for boards to learn and respond to these issues, many of which they may not have encountered before.

This is why we have been only too happy to accept invitations from two bank boards to share why ESG is an integral part of our investment process, how to identify the material issues that they need to tackle, debate with them the realities around taking action, and advocate for clear targets in this area.

RBS implements a new and ambitious purpose

The first bank that approached us was RBS in 2018. After a difficult decade restructuring in the wake of the global financial crisis (GFC) and stabilising the business, RBS was ready to move forward. Their existing purpose was focused on doing the right thing for customers, reflecting the need that the business had to rebuild the trust that had been eroded during the GFC. While we could see that the bank was involved in a number of good programmes, most of them appeared to be reactive. We shared our analysis about the social value that banks can create, quantified in economic terms through our proprietary impact measurement tool SustainEx, and argued for a more ambitious approach that encompassed the emerging challenges that the country was facing, in particular around climate change and post-Brexit growth.

In 2020 the new Chief Executive announced a more ambitious purpose: To champion potential by helping people, families and businesses to thrive. Three clear pillars were outlined, the first of which centred on helping people overcome the challenges around starting their own business. The second and third related to building financial capability in their client base, and helping to accelerate the transition to a low carbon economy, respectively. Under each pillar granular targets have been set and key performance indicators established; for example, around the location of the communities that they want to assist in becoming more entrepreneurial, and the energy efficiency rating of their mortgage book.

CIMB improves its stakeholder engagement

In 2019 we were contacted by the board of CIMB, a Malaysian bank, about their approach to ESG. Aware that European companies were leading in this area, and focused on benchmarking themselves against the best banks globally, the bank embarked on a programme of education. In a dedicated session we shared our philosophy with them but also, more practically, our proprietary company analysis tool, CONTEXT. This tool takes a stakeholder approach, and measures how well companies are treating stakeholders using a variety of key performance indicators (KPIs).

In a report published at the end of 2019 we could identify that their stakeholder engagement mirrored the key stakeholder we had identified for the bank. This was supplemented by a materiality matrix, and clear organisation charts showing who in the organisation is responsible for driving this forward. Overarching all this was a commitment to sustainable banking. While we can see more areas of engagement, in particular on climate change and coal lending, it is an encouraging start.

In both of these situations we realise that the banks named will have sought out the feedback of many other stakeholders in their journey. Nevertheless, we believe that the shareholder voice and the nature of the bespoke feedback in these conversations provides a unique perspective and enables boards to think about how a stakeholder approach or a refreshed purpose can be used to build long-term value.

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Stewardship Insights

Engagement in practice: Drax's transition to cleaner power

Holly Turner

Sustainable Investment Analyst

A decade ago, Britain depended on coal for around 40% of electricity supply, but has just gone a full two months without burning coal to generate power. This is partly due to electricity demand tumbling during the Covid crisis, but also because we are seeing a shift in the energy system. Companies that assist and enable the energy transition hold potential investment opportunities. We regularly engage with companies to understand how they are preparing for and supporting the transition to a low carbon economy, and encourage them to move towards sustainable business practices.

Drax, a British electrical power generation company, has an ambition to become carbon negative by 2050, meaning it will not only be emitting zero carbon, but also aims to reduce the amount of carbon in the atmosphere. Over the past seven years, Drax has transitioned almost all of its power away from coal towards biomass. In March 2019, the company stated it was the largest renewable power generator in the UK, generating 12% of the country's renewable electricity, stating a carbon saving of more than 80% compared to coal (including emissions from its supply chain).

Drax has become one of the most extensive users of biomass as a fuel source. Biomass is considered contentious in terms of carbon neutrality, largely due to the level of CO2 emissions released upon burning the biomass and, more loosely, the transportation emissions bringing the raw material to the power plants. We engaged with Drax to understand the functionality of the biomass process and how the company is visibly changing with this transition.

In a collaborative engagement effort, members of the UK Equity and Sustainable Investment teams visited Drax's power plant in Yorkshire in February 2020. A tour of the site revealed the new infrastructure needed to transport and store the biomass fuel whilst also highlighting how parts of the plant can remain operational, despite the change in fuel source. We were also able to see, and better understand, the range of different CCS (carbon capture and storage) technologies the company has invested in and how its strict supply chain procedure works in terms of forest management and controlling transport emissions.

Our engagements with the company provided multiple opportunities to hold invaluably in-depth conversations on specific components of the business. It provided us with more confidence around the company's sustainability practices and helped us to better understand the extensive efforts the company is undertaking to become a negative carbon emitter by 2050. We will continue to engage with Drax throughout their low carbon transition to ensure the company evolves with ESG best practice and to understand their continued contribution to the UK's clean power market.

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Image of Drax's power station

Stewardship activity

Engagement in numbers

Engagement by tier

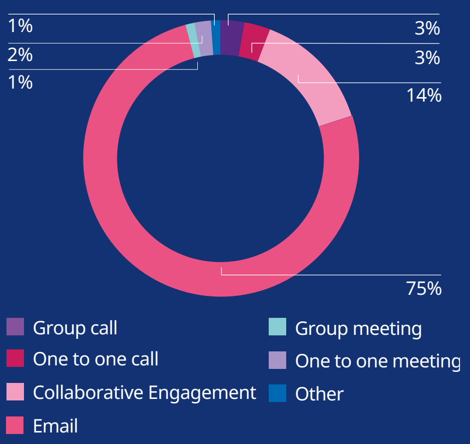
Tier	Scope	Number of engagements
1	In-depth, Sustainable Investment team-led engagements	94
2	Analyst/fund manager-led engagement	38
3	Collaborative engagement and communicating expectations at scale	513
4	Influence through actively voting on all holdings and conducting company meetings	5533
5	Industry involvement and public policy influence	Reported annually

Regional engagement (tiers 1 – 3)

Asia Pacific	8%
Europe (ex-UK)	28%
Latin America	6%
Middle East and Africa	1%
North America	5%
UK	52%

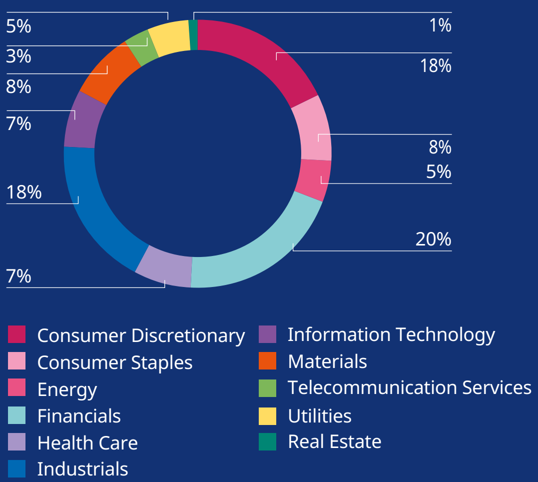
Source: Schroders as at 30 June 2020

Engagement type (tiers 1 – 3)



Source: Schroders as at 30 June 2020

Engagement by sector (tiers 1 – 3)



Source: Schroders as at 30 June 2020

Voting in numbers

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

This quarter we voted on **3790 meetings and approximately 91.97% of all resolutions**. We voted on **1080 ESG-related shareholder resolutions**, voting with **management on 622**.

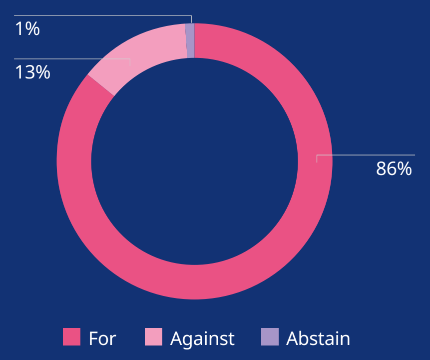
The charts below provide a breakdown of our voting activity from this quarter. Our UK voting decisions are all available on our website at http://www.schroders.com/en/about-us/corporate-responsibility/sustainability/influence/.

Company meetings voted

UK	15%
Europe (ex-UK)	33%
North America	27%
Asia Pacific	17%
Middle East and Africa	2%
Latin America	6%

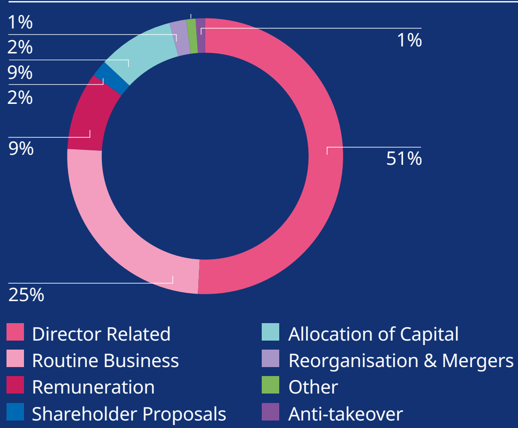
Source: Schroders as at 30 June 2020

Direction of votes this quarter



Source: Schroders as at 30 June 2020

Reasons for votes against this quarter

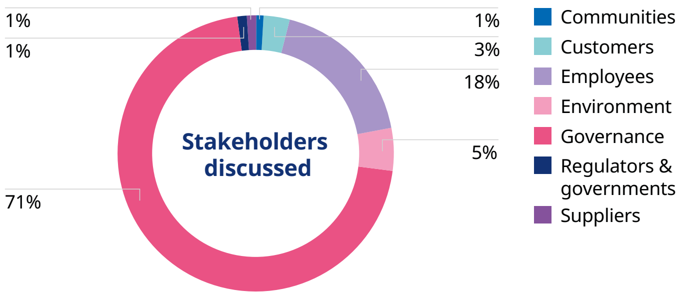


Source: Schroders as at 30 June 2020

Total company engagement

645 tier 1-3 engagements took place this quarter with the **519 companies listed** below. The table below summarises whether the broad range of topics discussed with each company fall under "environmental", "social" or "governance" issues. The chart opposite illustrates the topics discussed this quarter categorised by stakeholder. For further details about the issues discussed and company responses, please contact your Client Director.

Stakeholder breakdown of tier 1-3 engagements



Company	E	S	G
Consumer Discretionary			
Amazon			✔
Anta Sports			✔
Antena 3 de TV S			✔
Barratt Developments		✔	
Bayerische Motoren Werke		✔	
BCA Marketplace			✔
Bellway			✔
Berkeley Group		✔	
BOVIS HOMES			✔
Brembo Spa			✔
Burberry			✔
Burberry Group		✔	
Cairo Communications			✔
Carnival		✔	
Cia Hering			✔
Coats			✔
Compass		✔	
Consorcio			✔
Continental	✔		
Cyrela Brazil Realty			✔
Daily Mail and General Trust			✔
Daimler	✔		
Dalata Hotel			✔
Debenhams			✔
Dillards			✔

Company	E	S	G
Dunelm			✔
Faurecia	✔		
Ferrari			✔
Fiat Chrysler	✔		
Grupo Televisa			✔
H & M			✔
Hanon Systems	✔		
Henry Boot			✔
Hermes			✔
Howden Joinery			✔
Hyundai Mobis	✔		
Hyundai Motors	✔		
Inchcape			✔
Informa		✔	
Intercontinental Hotels		✔	
ITV		✔	
JD Sports Fashion		✔	
Lagardere			✔
M J Gleeson			✔
Mahle Metal Leve			✔
Mandarin Oriental International			✔
Maruti Suzuki India	✔		
Modern Times			✔
Nielsen			✔
Nokian Tyres			✔
Ocado		✔	✔

Source: Schroders, 30 June 2020.
The companies and sectors mentioned herein are for illustrative purposes only and are not to be considered a recommendation to buy or sell.

Company	E	S	G
Omnicom			✔
Paddy Power Betfair		✔	
Pearson		✔	✔
Pendragon			✔
Persimmon		✔	
Pets at Home			✔
Peugeot	✔		
Photo-Me International			✔
PVH		✔	
Rank			✔
Redrow			✔
RELX		✔	
Renault	✔		
Restaurant			✔
Rightmove			✔
Rocket Internet			✔
Schaeffler	✔		
Sportech			✔
Sports Direct			✔
Stella International			✔
Studio Retail			✔
Superdry			✔
Taylor Wimpey		✔	
Technogym			✔
Ted Baker			✔
Telenet			✔
Television Francaise			✔
Thomas Cook			✔
Tianneng Power International			✔
Tokyo Broadcasting System		✔	
Toyota Motor	✔		
Trinity Mirror			✔
URBI			✔
Valeo	✔	✔	
Veoneer	✔		
Vitec			✔

Company	E	S	G
Vivendi Universal			✔
Volkswagen		✔	
Whitbread		✔	
William Hill			✔
Wolters Kluwer			✔
WPP		✔	
Xinyi Glass			✔
Yum China	✔	✔	
ZEAL Network			✔
Consumer Staples			
Accrol			✔
Ambev			✔
Associated British Foods		✔	
Beiersdorf			✔
Bell			✔
Booking.com	✔	✔	
British American Tobacco		✔	
Britvic			✔
Coca Cola		✔	✔
Cranswick			✔
Dairy Crest			✔
Dali Foods			✔
Danone			✔
Diageo			✔
Embotella Andina			✔
Essity			✔
Estee Lauder	✔		✔
Gruma			✔
Hypermarcas			✔
Imperial Tobacco		✔	
J Sainsbury	✔	✔	
JBS		✔	
Kesko			✔
Krokger	✔	✔	
Marr			✔
Natura Cosmeticos	✔		

Source: Schroders, 30 June 2020.
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Company	E	S	G
Nestle			✔
Pilgrim's Pride		✔	
Raia Drogasil			✔
Reckitt Benckiser		✔	
SSP			✔
Tate & Lyle			✔
Tesco		✔	✔
Unilever		✔	✔
Walmart	✔	✔	
Wesfarmers		✔	
WM Morrison		✔	✔
X5			✔
Energy			
AFC Energy			✔
Baker Hughes	✔		
BP		✔	
Cairn Energy			✔
Drilling Company			✔
Ensco			✔
Equinor			✔
Erg			✔
Euronav			✔
Good Energy			✔
Hargreaves Services		✔	
Helmerich & Payne	✔		
Hunting			✔
IHC Caland			✔
Koninklijke Vopak			✔
Lamprell			✔
Petrofac			✔
President Energy			✔
Rowan Companies			✔
Royal Dutch Shell		✔	
Saipem	✔		
SBM Offshore	✔		
Technip FMC			✔

Company	E	S	G
Towngas China			✔
Tupras			✔
Wood Group			✔
Woodside Petroleum	✔		
Financials			
3i Group		✔	
Aberdeen standard			✔
ACE			✔
Admiral		✔	
Agile			✔
Amundi			✔
ASR Nederland			✔
Assicurazioni Generali Spa			✔
Aviva		✔	
Ayala Land			✔
Banca Farmafactoring			✔
Banca Generali			✔
Banca IFIS			✔
Banco do Brasil Seguridade			✔
Bank Muscat			✔
Bank of the Philippine Islands			✔
Banque Saudi Fransi			✔
Barclays		✔	✔
Beazley			✔
BR Properties			✔
British Land		✔	
CaixaBank			✔
Caledonia Investments			✔
Charles Stanley			✔
Citigroup		✔	
Close Brothers			✔
CMC Markets			✔
CNP Assurances			✔
Coface			✔
Country Garden			✔
Credit Agricole			✔

Source: Schroders, 30 June 2020.
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Company	E	S	G
Credit Suisse			✔
Credito Emiliano			✔
Direct Line Insurance			✔
Erste Bank		✔	
Esure			✔
FirstCash	✔	✔	
Fonciere des Regions			✔
Gecina			✔
Grainger			✔
Grand City Properties			✔
Groupe Bruxelles Lambert			✔
Haitong International			✔
Hammerson			✔
Hastings			✔
HSBC		✔	✔
Icade			✔
Industrivarden			✔
Intermediate Capital			✔
International Personal Finance			✔
Investec			✔
Jupiter Fund Management			✔
Just Retirement		✔	
KBC Groep			✔
Kerry Properties			✔
Kuwait Finance House			✔
Legal & General		✔	
Lloyds			✔
Lloyds Banking Group		✔	
Londonmetric Property			✔
LSE		✔	
M&G		✔	
Mabanee			✔
Man Group			✔
Natixis			✔
NEX		✔	
Nexity			✔

Company	E	S	G
NN			✔
Nordea Bank			✔
OneSavings			✔
Pekao			✔
Phoenix		✔	
Provident Financial			✔
Prudential			✔
Prudential Corporation		✔	
PZU			✔
Qualitytech			✔
Quilter			✔
RBS			✔
Royal & Sun Alliance Insurance		✔	
Royal Bank of Scotland		✔	
S & U			✔
Saga			✔
Sampo Oyj			✔
Savills			✔
Scentre			✔
Segro			✔
Shimao Property			✔
SoHo China			✔
St James Place Capital		✔	
Standard Chartered		✔	✔
Standard Life		✔	
Swedbank			✔
Swiss Reinsurance Company			✔
TBC Bank			✔
Times Property			✔
TopDanmark			✔
TP Icap			✔
Turkiye Garanti Bankasi			✔
UBS			✔
Unite			✔
Wharf Real Estate Investment			✔
Workspace			✔

Source: Schroders, 30 June 2020.
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Company	E	S	G
Health Care			
AstraZeneca		✔	✔
Bayer			✔
BTG			✔
Consun Pharmaceutical			✔
CSL		✔	
Danaher			✔
Dechra Pharma			✔
DexCom		✔	
Galencia			✔
Getinge	✔	✔	
GlaxoSmithKline		✔	
Hikma	✔	✔	
Hikma Pharmaceuticals		✔	
Indivior			✔
Ipsen			✔
Lees Pharmaceutical			✔
Mallinckrodt			✔
Merck	✔	✔	✔
Mereo BioPharma			✔
Novartis	✔	✔	
Odontoprev			✔
Qualicorp			✔
Roche		✔	
Sanofi-Aventis			✔
Shire Pharmaceuticals			✔
Sinclair Pharma			✔
Smith & Nephew			✔
Spire Healthcare			✔
Straumann			✔
Swedish Orphan Biovitrum			✔
Takeda Pharmaceuticals			✔
UCB	✔		
Industrials			
Adecco			✔
AerCap			✔
Aggreko			✔
Air France			✔
Airbus			✔
Alfa Laval			✔
Ashtead		✔	
Assa Abloy			✔
Atlantia			✔
BAE Systems		✔	
Balfour			✔
Bodycote			✔
Bollore			✔
Bouygues			✔
Bufab			✔
Bunzl		✔	
Capita Group			✔
CCR			✔
Chemring			✔
Cimc Enric			✔
CNH Industrial			✔
Cobham			✔
Corporacion Moctezuma			✔
Cosco Pacific			✔
DCC		✔	
De La Rue			✔
DKSH			✔
EasyJet		✔	
Edenred			✔
Eurocell			✔
Experian		✔	
FirstGroup			✔
Fisher & Sons			✔
G4S			✔
Geberit			✔
GlobalTrans			✔
Grupo Mexico Transportes			✔
Haitian			✔

Source: Schroders, 30 June 2020.
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Company	E	S	G
Homeserve			✔
Hubbell			✔
IMI			✔
Impellam			✔
International Consolidated Airlines		✔	
Intertek		✔	
Irish Continental			✔
IWG			✔
Jardine Matheson			✔
John Laing			✔
Johnson Service Group			✔
Kardex			✔
Keller			✔
Koc Holding			✔
LATAM Airlines			✔
Leonardo			✔
Leoni	✔		
Localiza Rent A Car			✔
Lonking			✔
Loomis			✔
M.P. Evans			✔
Management Consulting			✔
Meggitt			✔
Melrose Industries		✔	
Michael Page			✔
Molins			✔
Munters			✔
National Express			✔
Nibe Industrier	✔		✔
Nobina			✔
Paypoint			✔
Poenina			✔
Qinetiq Group			✔
Redde			✔
Rentokil Initial			✔
Restore			✔
Robert Walters			✔

Company	E	S	G
Rolls-Royce		✔	
Royal Mail			✔
RPS			✔
Saab			✔
Sandvik			✔
Sany Heavy			✔
Securitas			✔
SIF			✔
Sig			✔
Smiths		✔	
Societe B I C			✔
Spirax-Sarco Engineering		✔	
Teleperformance		✔	✔
Thales			✔
Tomra Systems			✔
Trelleborg			✔
Unaxis			✔
Vestas Wind Systems	✔	✔	
Weg			✔
Weir			✔
Wincanton			✔
Wolseley		✔	
XP Power			✔
Information Technology			
AAC Technologies			✔
Aquis			✔
ASM Lithography			✔
Asseco Poland			✔
Auto Trader		✔	
Avast			✔
Aveva		✔	
Barco			✔
Cardtronics			✔
CML Microsystems			✔
Dassault Systemes			✔
Electrocomponents			✔
Equiniti			✔

Source: Schroders, 30 June 2020.
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Company	E	S	G
Globant			✔
Halma		✔	
Hexagon			✔
Iress Market Tech			✔
Koh-young			✔
Micro Focus			✔
Nokia			✔
Playtech			✔
PV Crystalox Solar			✔
Reply			✔
RhythmOne			✔
Sage		✔	
Sensirion			✔
Sophos			✔
Spectris			✔
Spirent			✔
STMicroelectronics	✔	✔	
Sunny Optical Technology			✔
Tax Systems			✔
Temenos			✔
United Internet			✔
Wandisco			✔
Worldline			✔
Materials			
Anglo American	✔		
Antofagasta		✔	
Arcelor Mittal	✔		
Arkema			✔
BHP Billiton		✔	✔
China Zhongwang			✔
CMPC	✔		
CRH		✔	
Croda International		✔	
CSN			✔
DS Smith		✔	
Duratex			✔
Elementis	✔		

Company	E	S	G
Ferrexpo			✔
Glencore		✔	
GMK Norilsk Nickel	✔		
Grupo Mexico			✔
Hexpol AB			✔
Hochschild Mining			✔
IMERYS			✔
Johnson Matthey		✔	
LG Chemical	✔		
Lonmin			✔
Mayr-Melnhof			✔
Mondi		✔	
Norsk Hydro			✔
Petropavlovsk			✔
Phosagro	✔		
Polymetal		✔	
Portucel			✔
Rio Tinto		✔	✔
Sika	✔	✔	✔
Smurfit Kappa		✔	✔
Solvay			✔
Synthomer			✔
Vale	✔	✔	
Victrex			✔
Real Estate			
QTS			✔
Raven Russia			✔
Secure Income REIT			✔
U and I Group			✔
Telecommunication Services			
Ascential			✔
Belgacom			✔
Boku			✔
BT			✔
CTS Eventim			✔
Elisa			✔
Globe Telecom			✔

Source: Schroders, 30 June 2020.
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Company	E	S	G
Megacable Cominicaciones			✔
Play Communications			✔
STV			✔
Talktalk			✔
Telecom Italia			✔
Telefonica Deutschland			✔
Telenor			✔
Vodafone		✔	
XL Media			✔
Utilities			
Alupar Investimento			✔
BKW			✔
Centrica		✔	
Cheung Kong Infrastructure			✔
Consolidated Edison	✔	✔	✔
Copasa			✔
Drax			✔
EDF			✔
EDP			✔
Electro Power Systems			✔
Endesa			✔
Engie			✔
Hera			✔
HK Electric Investments			✔
Iberdrola	✔		
National Grid			✔
Nordex			✔
Pennon		✔	
Romande Energie			✔
RWE	✔		
Scottish and Southern Energy		✔	
Severn Trent		✔	
Snam			✔
Suez Environment			✔
Transmissora Alianca de Energia Eletrica			✔

Company	E	S	G
United Utilities		✔	
Voltalia			✔

Key

E – Environment
S – Social
G – Governance

Source: Schroders, 30 June 2020.
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Stewardship activity

Engagement progress

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

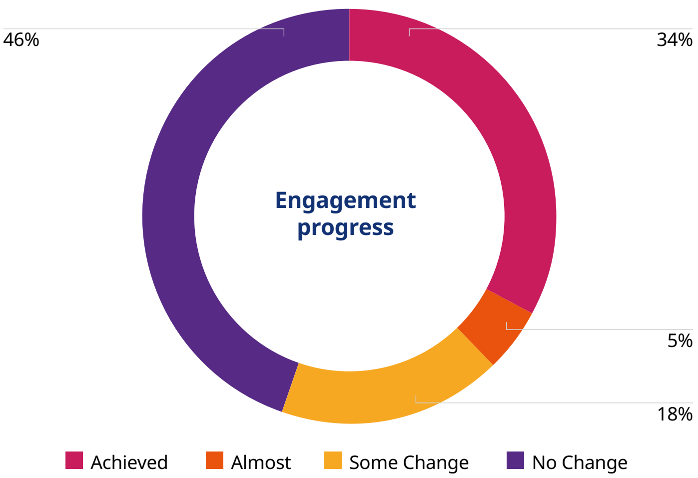
There are five possible results: 'Achieved', 'Almost', 'Some Change', No Change' and 'No Further Change Required' (typically because we have sold out of the position).

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

In Q2 2019, Schroders undertook 62 requests for change classified as tier 1 engagements. Upon reviewing these engagements in Q2 2020, the pie chart below shows a breakdown of the progress we have made.

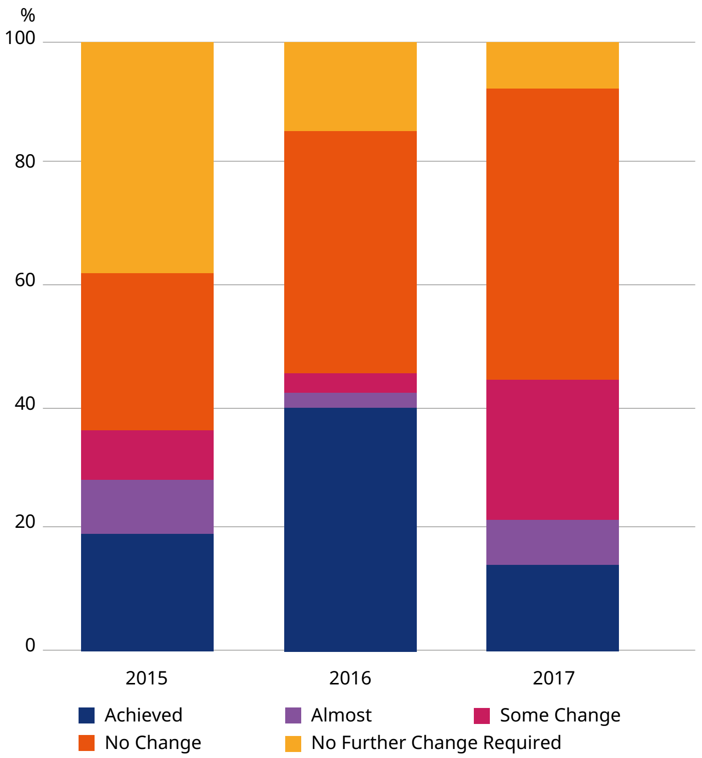
The bar chart below shows the effectiveness of our requests for change over a three-year period. Our experience shows that at least two years of dialogue is typically required before our requests begin to materialise into measurable change within a company. It is for this reason that the two most recent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

Engagement progress from Q2 2019



Source: Schroders as at 30 June 2020

Effectiveness of requests for change - 3 year period



Source: Schroders as at 31 December 2019

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