

Sustainable Investment Report

Third quarter 2020

Marketing material



Environmental, Social and Governance
is referred to as ESG throughout

Schroders



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As many of us returned from what was a far cry from the traditional summer break, it was not long before talk turned to the prospect of a second wave of Covid-19. Its too early to tell what lessons have been learned. What we do know is that the effects of the pandemic will be felt for many years to come.



Hannah Simons

Head of Sustainability Strategy

Our “inescapable truths” are the economic and disruptive forces identified by Schroders before Covid-19 as shaping the medium-term outlook for economies and markets.

They predicted a slowing economy and unprecedented disruption, and implied active stock selection and risk management would be critical.

Sustainability will be fundamental to understanding this shift. There are a number of ways the corporate sector will have to change as Andy Howard (Global Head of Sustainable Investment), and Seema Suchak (Head of Sector Research ESG) have identified. We explore these in the first article of our third quarter Sustainable Investment report 2020.

Covid has also resulted in many companies’ annual general meetings (AGMs) moving to a virtual set-up. Daniel Veazey, Head of Corporate Governance Analysts, shares his thoughts on some of the key trends we saw over this last proxy voting season.

Voting is a key part of our approach to active ownership; it’s one of the ways we can hold companies to account. We take a look back at the engagement we have had with Amazon and how this led to our decision to use our voice and vote against management in the 2020 AGM.

Sustainable investing, and in particular, the ‘S’ or ‘social’ part of ESG (environmental, social and governance) has been under the spotlight since the outbreak of Covid-19. But environmental issues have not been forgotten.

The stimulus packages and recovery plans that governments are putting in place firmly put a green recovery at the heart of the solution. Catherine Macaulay, one of our sustainable investment analysts, talks us through the EU Green Deal, which aims to make Europe climate neutral by 2050.

Understanding how the associated policies can affect industries and companies will be key to investors’ analysis and decision-making and Catherine’s work identifies four investment themes that should provide opportunities for companies.

Our latest Schroders Global Investor Study shows just how important sustainable investing is to investors around the world. Every year, we undertake a survey of global investors to learn more about their attitudes to sustainable investing.

This year respondents told us that their values increasingly drive their investment decisions and that social responsibility is the most important area for companies to focus on. It is simply a matter of time before these preferences start to drive significant asset flows into sustainable investments.

As this happens, investors will increasingly ask how they can measure the impact of their investments. We have developed a tool, SustainEx to help investors do this. It quantifies social and environmental impacts across individual companies, industries and geographies. In this report, we share details on the tool and how it is used by investors.

Finally, we share an update on some of our recent engagements on gender diversity, an area that’s long been a focus for us at Schroders. Diversity brings new ideas and experiences. People learn from each other and by having different ideas and perspectives we can find better solutions to the problems we face. We believe the value of diversity will also enhance a company’s long-term success.

We hope you find this report informative and insightful. You can keep up with our latest research on a range of topics from our dedicated [sustainability web page](#).

Six ways the corporate world will have to change

We focus on six key areas that point to a changing role of the corporate sector in society in the face of “inescapable truths”.



Andrew Howard
Global Head of Sustainable Investment



Seema Suchak
Head of Sector Research

It is clear that the effects of the Covid-19 pandemic will reverberate long after the outbreak has passed.

Our “inescapable truths” are the economic and disruptive forces identified by Schroders before Covid-19 as shaping the medium-term outlook for economies and markets.

Covid-19: the inescapable truths faced by investors

Even then, they predicted a slowing economy and unprecedented disruption, and implied active stock selection and risk management would be critical.

We explain how sustainability will be fundamental to progress, focusing on six key areas that point to a changing role of the corporate sector in society.

1. Re-writing social contracts: responsible “saint” companies will outperform the “sinners”

The current consumer attention on companies’ roles in society and the gap between “saints” and “sinners” is likely to accelerate.

We believe companies with a long-term outlook are more likely to behave responsibly towards their employees, to redirect capacity to social challenges and to support relief efforts.

We also believe these “saint” companies have a better chance of being the ones still standing - or even outperforming - once the crisis has passed.

2. Companies must be better prepared for “black swan” events

It has been debated whether Covid-19’s outbreak was a surprise “black swan” event or not.

Events such as terrorist attacks, political disruptions, natural disasters and other climate risks are coming thicker and faster, making so-called “black swan” events more frequent.

Exposure to pandemic threats, physical climate risk, water stresses, and socio-political risks need to be assessed.



3. Political reprioritisation: governments will come under pressure to tackle societal problems

The crisis is placing growing pressure on governments to tackle growing inequalities within societies.

We expect health, education, employment and other welfare policies to attract more focus in the future.

By tracking trends in regulation across topics and sectors, we can help identify companies facing bigger risks.

As investors, we can then analyse and question companies directly on their exposure and readiness.

4. Employee protection: supporting vulnerable workers

Covid-19 has highlighted gaps in employee protection. An increasing number of workers are in casual or “gig” economy roles without benefits such as paid sick leave, healthcare or retirement provision.

Our analysis suggests that corporates’ focus on basic benefits such as sick pay and health insurance will be increasingly critical to their licenses to operate.

Our proprietary ESG tools include a range of measures to assess companies’ readiness to adapt to the growing importance and influence of employees.

5. Globalisation under pressure: long-term structural shifts in global supply chains

Companies need to have both visibility and agility in overseeing their supply chains, as well sufficient investment in technology systems to help manage their performance.

Supply chains have localised during the Covid-19 outbreak and we expect long-term structural shifts.

On a company level, we can analyse the threat to supply chain disruption of some of our key holdings.

Our assessment of supplier payment lead times show which are among the slowest to pay their suppliers.

6. Technology adoption: driving workplace changes and new sales channels (but there are risks)

Digital life has been fast-tracked. The crisis has forced many corporate leaders to reprioritise remote working and to strengthen digital tools.

Whether these new habits will last depends in a large part on security. Technology platform launches have been rushed out, causing potential shortcuts in data security protocols.

Assessing the risk management picture of companies in affected industries allows for comparisons across peer groups.

Companies that have invested in good data security technology and leadership will be the least exposed to fines and poor customer experiences.

Conclusion: Sustainability will be fundamental to progress

The Covid-19 crisis has been a structural whirlwind, with the potential to fundamentally transform how companies interact with their stakeholders for the better over the long term.

It has highlighted the importance of ESG (environmental, social and governance) analysis, measurement, and engagement.

Through our proprietary analysis tools, we have the ability to draw upon global trend data and company data to assess which sectors and companies are more robust.

And as an active investor, we actively question those we believe are falling short of stakeholders’ expectations.



Want to know more?

Please find our full 10 page research paper [here](#)



What is the EU Green Deal and how might it impact business?

The EU Green Deal is a policy framework and package that aims to transform the European economy with the overarching goal of achieving climate neutrality by 2050 and increasing ambition in existing emissions reduction targets



Catherine Macaulay

Sustainable Investment Analyst

Announced in 2019, this multi-year project will create new and revamp existing policies, including the EU's first ever Climate Law. It is ambitious, far-reaching and will impact almost all sectors of the economy.

In addition, the plan focuses on policies and strategies to ensure the supply of clean and affordable energy, establish a circular economy, eliminate pollution, safeguard biodiversity, and create sustainable food and transport systems.

A combination of financial and real economy¹ policies have been proposed to achieve this climate ambition. We have highlighted key elements below, though there is a much longer list (~50) of associated policies and initiatives.

Figure 1: Financial and real economy reforms

Financial reform	Real economy reform
Sustainable Europe Investment Plan Set up to mobilise public investment and unlock private funds through EU financial instruments	Clean energy Sustainable industry Building renovation Clean transport
Renewed Strategy on Sustainable Finance Aims to provide a roadmap to channel private capital into green projects	Sustainable food systems Biodiversity Circular economies

Source: Schroders

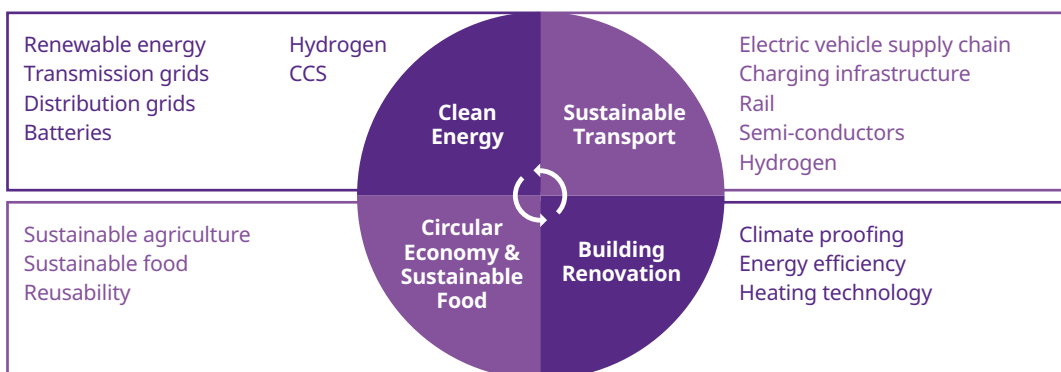
What are the investment implications?

We think that the Green Deal will have major structural implications for the EU economy in the coming decades, impacting everything from the way we produce and use power, to how we travel, heat our homes, and even how we eat.

This will provide significant opportunities for industries and companies that are well placed to take advantage of the transition.

We believe that the major policy areas highlighted in the Green Deal can be mapped to four key investment themes. Understanding how these policies can affect industries and companies will be key to investors' analysis and decision-making.

Figure 2: Four key investment themes



Source: An Infected Industry, FAIRR, June 2020

How we can measure companies' impacts on society: our award-winning SustainEx tool explained

Companies contribute to society and impose costs on it, neither of which are reflected in their financial statements



Vicki Owen
Investment writer



Hannah Simons
Head of Sustainability Strategy

Companies impact society both positively and negatively. The problem is that these impacts are not always reflected in their financial statements.

However, with growing scrutiny of companies' effects on the wider environment and society, governments and regulators are starting to clamp down. At the same time, people's expectations of companies are changing. As a result, companies are increasingly having to pay for these costs.

We have already seen this over the last decade through the likes of rising minimum wages and the introduction of carbon taxes.

This raises the question of how can we measure these impacts and what they might look like on company balance sheets.

Schroders' award-winning SustainEx tool is designed to answer this question.

Here Hannah Simons, Schroders' Head of Sustainability Strategy, goes into more detail on the tool and what it can tell us.

Why did Schroders create SustainEx?

Essentially, what SustainEx is doing is putting a financial value on all of the impacts that companies have on society. This way our portfolio managers can integrate these risks and considerations into their investment decision-making process.

We found that most existing approaches focused on either the negative or positive impacts a company creates, but never both together. We wanted to build a tool that tells us the full story, giving us a balanced view of what harm and good a company is bringing to society.

What are the impacts SustainEx tracks?

We looked at all of the stakeholders a company interacts with – governments, the environment, customers, employees, and communities – and the activities that impact them. In a perfect world SustainEx would track every possible impact out there. However, to ensure the tool offered meaningful outputs, we narrowed that list down to around 40 that met the following criteria: quantifiable, attributable, disclosed and transparent.

How do you go about quantifying the social cost?

It's a combination of academic analysis and company data. When we launched SustainEx, we reviewed more than 400 pieces of academic research. This number is getting closer to 800 now.

We also analyse 70 data points for every company to help us translate the social costs into "dollar" terms.

SustainEx covers more than 10,000 global companies and we can also look at impacts across sectors.

It's a very systematic and robust framework.

What's the end result?

The output of SustainEx tells us a company's "social value" as a percentage of sales, so if a company had a score of +5%, it means that for every \$100 of sales the company is making, it is generating an overall positive impact on society equivalent to \$5.

Social impacts our SustainEx tool measures



Source: Schroders

What are the biggest social costs and benefits?

Impacts like connectivity and innovation generate really positive scores, while some of the biggest costs to society are tobacco, carbon emissions and financial instability.

SustainEx helps us identify the biggest areas of sustainability risk, but doesn't necessarily tell us how companies are managing those risks. That's what another of our proprietary tools, CONTEXT, helps us do.

Aside from assessing overall impacts, how else is it used?

As well as on a company or sector basis, we can consider an individual portfolio compared to its benchmark.

Because economic costs or benefits are measured on a company-by-company basis for each impact separately, we can combine them in different ways.

For instance, by assigning each impact to a relevant UN Sustainable Development Goal category (people, planet, prosperity or peace), by mapping them to the stakeholders impacted or by separating them into the three "ESG" (environmental, social or governance) categories.

The total costs remain the same, it's simply the lens through which you look at it that changes.

What are the team working on next?

SustainEx allows fund managers and our clients – from pension funds to insurance and wealth management or end investors – to understand the impact that their investments are having on different sustainability risks.

The ability to look at the outputs through different lenses allows people with different priorities to see the data in the way it's most valuable to them.

We are extending its use to encompass governments. We can examine the positive or negative impacts countries contribute to global challenges or goods.

We're also developing a tool to sit alongside SustainEx that helps our clients understand how their portfolio contributes to specific UN SDGs.

Schroders' proprietary SustainEx framework was launched in 2018 to quantify impacts across individual firms, industries and geographies.

It has since won a number of awards. These include the Award for Impact Measurement/ Impact Reporting at Environmental Finance's inaugural IMPACT Awards this year and the Award for Innovation (Research & Methodology) at the Sustainable & ESG Investment Awards 2020.



Schroders Global Investor Study: Morals, money and how investors expect companies to be socially aware

Sustainability is one of the fastest growing areas of investment today.

Jo Marshall

Investment writer

People's attitudes to sustainability are continually evolving and our annual Global Investor Studies offer invaluable insights into the increasingly sophisticated views and priorities of our clients.

This year we surveyed more than 23,000 investors across 32 countries between 30 April and 15 June. The research defines "people" as those who will be investing at least €10,000 (or the equivalent) in the next 12 months and who have made changes to their investments within the last 10 years.

Morals or money?

One of the most striking findings this year is that principles and values are a key priority in people's investment decisions and many believe sustainability can create stronger investment prospects.

77% of people that responded to our survey would refuse to compromise their personal beliefs even if higher returns were on offer. This figure rises to 82% for those over 50 years of age.

And even for those across the age groups that would be willing to compromise, they'd only do so if returns were over 20%. This is almost double the average annual returns investors expect to achieve over the next five years.

From a geographic perspective, the data suggest the Chinese are the most committed to investing in line with their personal beliefs, with 90% of respondents reporting they'd not sacrifice their values when investing. At the other end of the spectrum are investors in the US and Singapore, a full third of which would invest against their beliefs if it meant higher returns.

How investors want companies to be socially aware

Clearly sustainability is important to people. As sustainability spans such a wide range of issues, we asked people to prioritise the areas they believed to be most important.

How companies impact communities and society topped the agenda; the study suggests 70% of respondents consider social factors of key importance. This is closely followed by environmental issues (67%) and treatment of staff (66%). Interestingly, social responsibility also took the top spot in terms of impact of returns.





Most important company behaviours vs most positive impact on return

Behaviour	Percentage of people rating behaviour as 'very important'	Percentage of people that think a behaviour will have the most positive impact on return
Social responsibility (e.g. impact on communities and society)	70%	68%
Attention to environmental issues (e.g. emissions, use of renewable energy, impact of company activity on ecosystems)	67%	66%
Treatment of staff	66%	67%
Closing the gender pay gap	59%	59%
Addressing the pay gaps between top executives and other employees	56%	58%
Diversity of the company's workforce (e.g. gender, ethnicity, age, sexuality, socio-economic background)	52%	56%

Everyone has a role to play in mitigating climate change










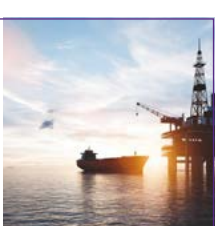

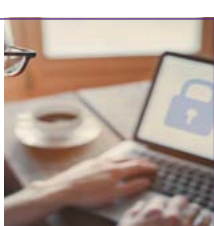



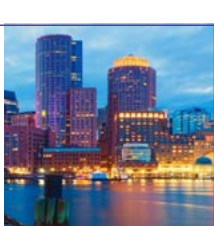








On the topic of climate change, we asked who should be responsible for tackling this global issue.

Nearly 70% said national governments and regulators, but many of the other options were not far behind. What is clear from the results is that no single group of institutions, governments, companies or people are fully responsible. We all have a key part to play.

Overall, we're very encouraged by the survey results. People are increasingly looking to contribute to a more sustainable society through their investments. As we seek to deliver returns for investors alongside better outcomes for society as a whole, measurement and tracking of progress remains critical. You can read more about how we put a financial value on the impacts that companies have on society on [page 6](#) of this report.

Sustainability insights round-up

Here's a round-up of sustainability insights from the third quarter - from whether companies are doing enough to curtail the plastic pandemic to what a Biden presidency could mean for climate change investing.

<p>Agents of sustainable change: How investors expect companies to be socially aware</p> 		<p>Are companies doing enough to curtail the plastic pandemic?</p> 	
<p>Climate Progress Dashboard forecasts global warming of 3.9°C despite Covid-19 crisis</p> 		<p>Coronavirus highlights the importance of the employee-employer relationship</p> 	
<p>Has demand for oil already peaked?</p> 		<p>How cyber risk has changed post Covid</p> 	
<p>How working flexibly can give investors an edge</p> 		<p>Q&A: What impact is Covid-19 having on global cities?</p> 	
<p>What anti-obesity measures and the National Food Strategy mean for businesses</p> 		<p>What are "accidental savers" doing with their surprise savings?</p> 	
<p>Why assessing sustainability is too important to outsource</p> 		<p>Why investors should pay attention to sugar</p> 	

Are investors more motivated by morals or money?



Q&A: Why electric trucks could help EU meet CO2 targets



Everything you need to know about sustainable investing



What could a Biden presidency mean for climate change investing?



How does an asset manager like Schroders actively influence the companies it invests in?



Our proxy votes on corporate governance around the world



Daniel Veazey

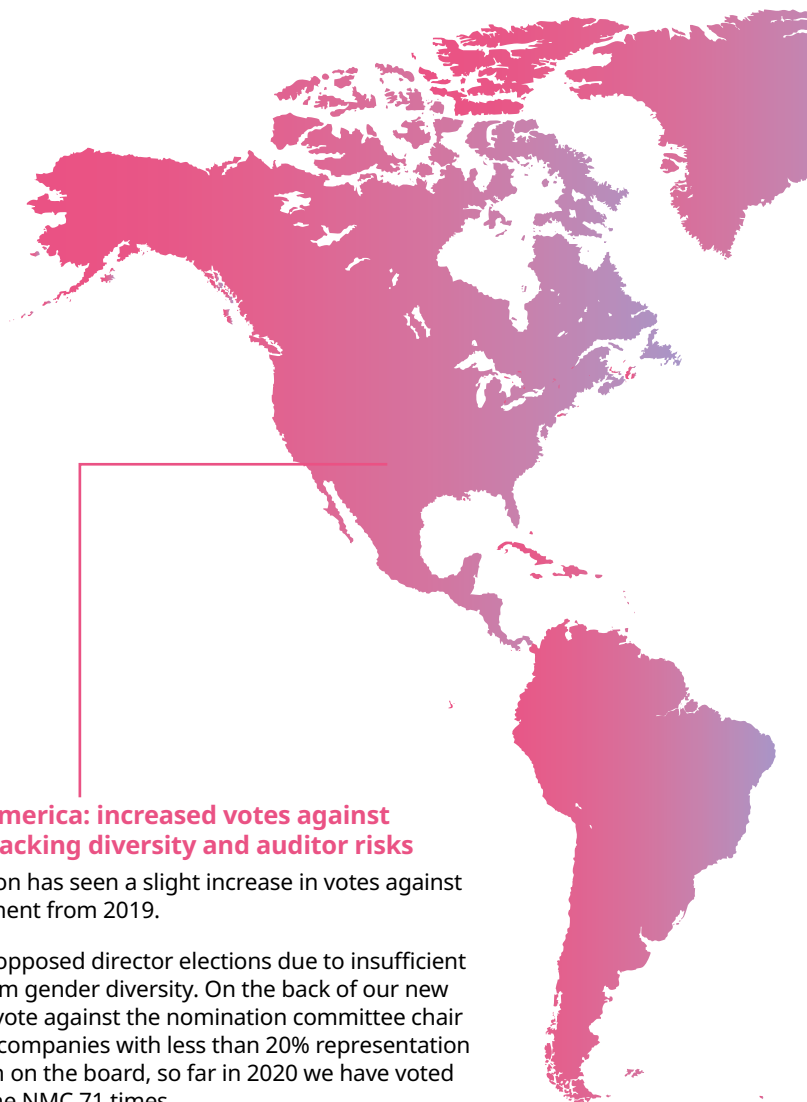
Head of Corporate Governance Analysts

Proxy voting is a crucial opportunity for shareholders who want to have their say over how public companies are governed.

Needless to say, the voting season has been unique this year. The coronavirus crisis has renewed urgency on environmental, social and governance considerations and calls for corporate behaviour to remain under the spotlight have been widespread.

The global Covid-19 pandemic also meant many companies moved to virtual Annual General Meetings. We are generally supportive of in-person AGMs as they encourage open discussion with management, but virtual meetings have also had some benefits. You can read more about virtual AGMs in this piece from Anastasia Petraki, Head of Policy Research, [here](#).

Here's a round-up of our proxy voting activity around the world in the third quarter of 2020 (i.e. 1st July – 30th September).



North America: increased votes against boards lacking diversity and auditor risks

This season has seen a slight increase in votes against management from 2019.

We have opposed director elections due to insufficient boardroom gender diversity. On the back of our new policy to vote against the nomination committee chair (NMC) of companies with less than 20% representation of women on the board, so far in 2020 we have voted against the NMC 71 times.

We have increased votes against the ratification of auditors this season due to the duration of their tenure. This has been underpinned by our new policy to vote against the re-election of auditors where tenure exceeds 20 years and there is no commitment to put the audit out to tender in the near term.

UK: bonus forfeits and votes against “over-boarders”

Dividend cancellations, executive pay freezes or cuts and bonus forfeits were among subjects raised during engagements in the period from July to September. Management taking pay cuts for three months was a recurring theme.

In an undeniably tough environment we were looking to support companies, but we also have a duty to ensure long-term sustainability of firms is not compromised. There have been discussions on “over-boarded” directors.

In some cases this led to us voting against individuals we deemed too stretched, especially where they also chaired audit committees.

Asia: a more lenient approach to cash hoarders due to the pandemic

Japanese companies have long been criticised for their hoarding of cash dividends.

We typically vote against the allocation of income proposals when the dividend pay-out ratio is less than satisfactory.

Following the impact of the coronavirus crisis, we have introduced a more lenient approach. As a result, there have been fewer votes against management for allocation of income proposals – down from 13% in 2019 to 8% in 2020.

However, we are still prepared to vote against companies with sizable sums of idle cash.

Europe: new requirements see remunerations policies in transition

Remuneration policy and reporting requirements were updated and extended in the Shareholder Rights Directive II of June 2019. The update means shareholders have the right to more information and voting power on remuneration.

We have seen 2020 as a transitional year and will expect more of companies next year.

Both Belgium and Germany missed the June 2019 transposition deadline, for example.

We voted against remuneration policy resolutions at 32 Swedish businesses due to lack of disclosure – more than 50% of the total remuneration policies voted on.

It will take the smaller regions some time to adjust and catch up with the likes of France and Spain.

Active ownership in practice: Amazon’s labour standards – escalating our concerns

The term “active ownership” covers the ways investors actively influence corporate behaviour and hold companies accountable.



Elly Irving

Head of Engagement

At Schrodgers, our approach is to enhance our understanding of a company, where necessary to encourage change, and through our voting to hold companies to account.

Where we do not see sufficient progress towards our engagement objectives we need to take action to heighten our concerns. We do this through our escalation process below – from regular meetings with executives to divestment.

Here we share an example of how we escalated our concerns with Amazon - and how after repeated engagements we voted against management at their 2020 annual general meeting.

The criteria which could trigger a vote against management

A vote against management is likely to be considered if these three criteria are met:

1. We have repeatedly engaged with the company on the same topic over a period of five years or more.
2. We have concluded from our own assessment that it is a “material” issue we are engaging on (i.e. it is one of the issues that matters most for stakeholders)
3. We have not seen progress.

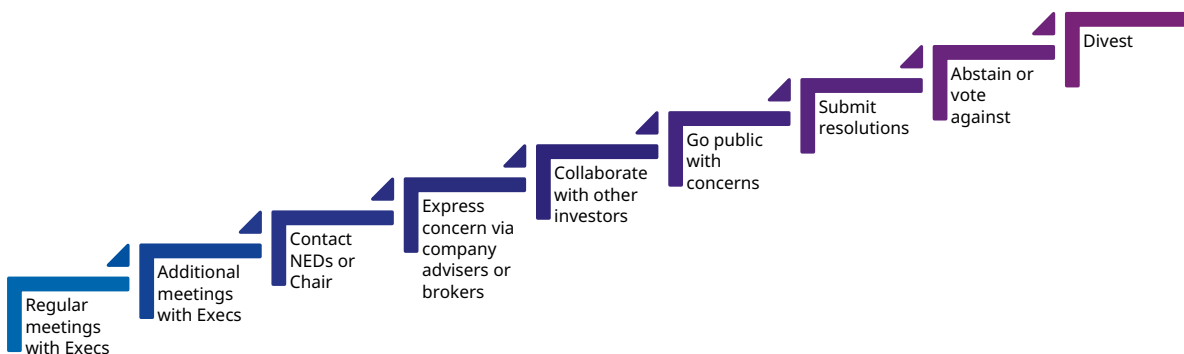
Our engagements with Amazon

Amazon’s success has been coupled with a phenomenal increase in the size of its workforce. When we first starting engaging with Amazon on employee practices in 2015 the firm had 230,800 employees. Now it employs 973,000.

It is the 11th largest employer in the world. It is the fourth largest publicly-listed employer after the multinational retailer Walmart, McDonald’s fast food company and oil and gas giant CNOOC.

Within a period of five years, Amazon has acquired the supermarket chain Whole Foods Market, increased the number of fulfilment centres and seen unprecedented demand, especially during the pandemic.

Our engagement escalation process



Source: Schrodgers

Companies and sectors mentioned herein are not a recommendation to buy/sell any security.

Since 2015, we've engaged with Amazon 16 times. Our interactions with the online shopping giant have included:

- Collective engagements (jointly with other fund managers) focused on climate issues, particularly within Amazon's food business
- Representing shareholders in group investor calls covering sustainability
- Calls, in collaboration with our Global Climate Change fund team, about the use of electric vehicles across its distribution network
- Email dialogue over head office culture

But our biggest concern has been that transparency of the company's workforce structure and employment practices have not kept pace with the sheer size of its workforce.

Since the onset of COVID, Amazon's employment practices have come under greater scrutiny, and justifiably so.

The vast majority of our engagements with the company have been on the topic of labour standards within its warehouses.

We had a call with Amazon in March, and again in May, ahead of the company's annual general meeting that month.

While some improvements on sustainability issues had been made overall, such as increased transparency and an ambitious climate pledge, we did not think our labour and business ethics concerns had been addressed.

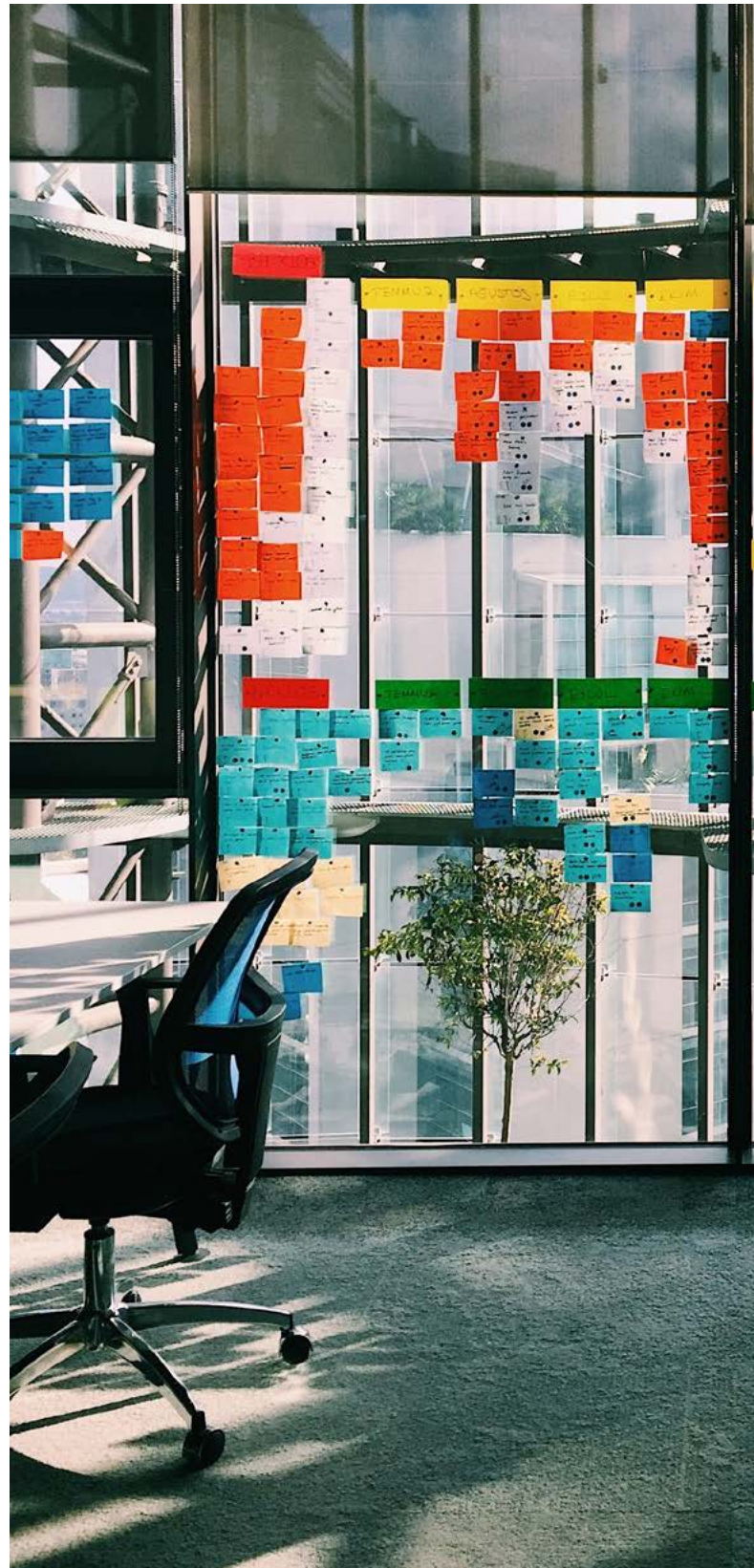
How we voted against management at the 2020 AGM

At the AGM in May, we supported six calls for increased disclosure on employment issues. These were resolutions, or recommendations, from other shareholders which we voted in favour of. For the first time when voting at the company's AGM, we voted against the management solely on social, rather than governance concerns.

We communicated our intentions to the firm. We were escalating our concerns because not enough progress had been made on its workforce disclosure to evidence that employee conditions are adequate and worker safety a priority.

We voted against the re-election of the lead independent director, the most senior individual after the CEO/Chairman, Jeff Bezos.

We explained to the company that our vote against marks the start of a 12 month window for improvement, and that further escalation will be considered if no progress has been made by the 2021 AGM.



How we are engaging to promote gender diversity

We believe diversity is important for a company’s long-term strategy and success; allowing for more constructive debate of competing views and opinions, and better representation of wider stakeholders.

Sustainable Investment team

We believe diversity is important for a company’s long-term strategy and success; allowing for more constructive debate of competing views and opinions, and better representation of wider stakeholders.

We expect companies and boards to be able to demonstrate that they are comprised of a diverse selection of individuals across gender, ethnicity, sexuality and thought. We regularly take voting action and engage when performance does not meet our expectations.

Since Q1 2015 to date, we have engaged over 180 companies on diversity-related issues. Although there is still substantial ground to be made up, bright spots of progress suggest that shifts are underway. 21% of companies have fully implemented changes sought.

In this piece we explore two recent engagement projects covering both board level and workforce diversity.

US board gender diversity

While the issue of gender balance on boards is a global concern (see Figure 1) and one that we are addressing worldwide, slow progress in the US has been a focus

for our Corporate Governance team since 2018. The percentage of female directors added to boards has risen by just 3.2% since 2012.²

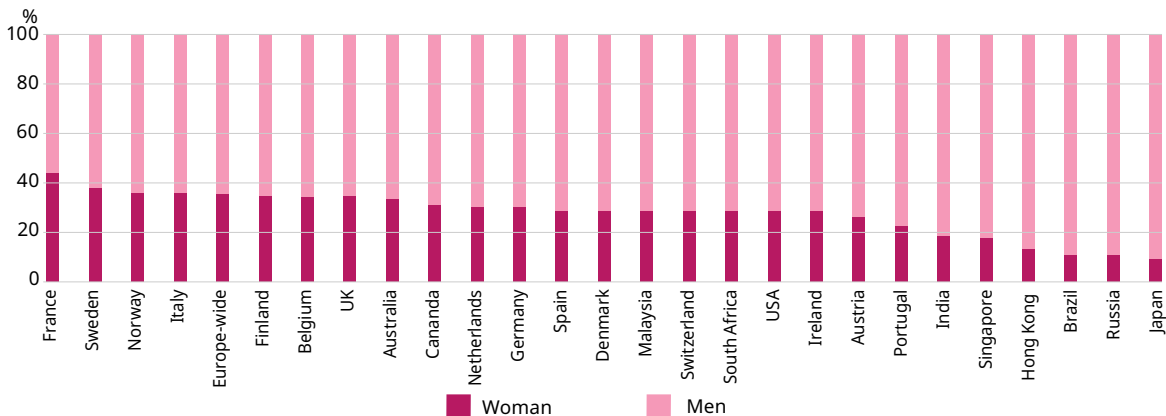
The geographical variance in gender balance can be attributed to several factors, spanning cultural inertia to the institution of mandatory minimum representation requirements in various markets.

In 2018, as several quotas were being rolled out/planned at the state level in the US, we wrote to 40 of our US holdings with all male boards to accelerate progress on director change and renewal. We communicated our intentions to vote against the chair of the Nominating Committee if there was insufficient improvement.

We highlighted the benefits that diversity of thought could bring and recommended various strategies to tackle bottlenecks to progress, including but not limited to:

- Requiring a diverse slate of candidates;
- Setting voluntary diversity targets;
- Expanding board size to include more women;
- Adopting term or age limits to address low turnover; and
- Conducting board performance evaluations.

Figure 1: Average percentage of women on boards



Source: BoardEx

² Source: <https://www.egonzeahnder.com/what-we-do/board-advisory/insights/2018-global-board-diversity-tracker-whos-really-on-board>

Over 75% of these companies have since added women to their boards. Furthermore we have amended our group policy since 2018 to expect at minimum 25% representation.

Gender diversity in technology

Our commitment to promote a more diverse and inclusive spectrum of gender representation transcends the board level; it should also be a priority at the employee and manager levels.

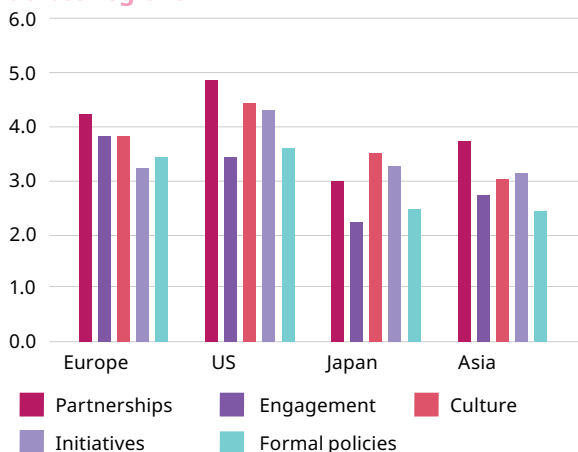
Since 2019 we have engaged with more than 60 companies in the technology sector across Europe, the US and Asia that exhibit a poor ratio of women across their employee base and management layers. We have benchmarked companies against the following five "best in class" characteristics:

1. Talent acquisition strategies based on collaboration with technology universities and colleges;
2. Robust employee engagement;
3. A strong culture espousing inclusivity;
4. Specific initiatives targeting equal opportunities; and
5. Formal policies and commitments to facilitate career development

Our interactions have highlighted salient geographical nuances, as Figure 2 highlights. For example, Asian companies appear strong on partnerships with universities, but are weak on senior management focus; whereas US companies are very strong on partnerships with universities, but weak on diversity survey analysis.

We plan to follow up with poor performers to encourage alignment with best practice. Already we have made traction with a Japan-based technology company which has introduced diversity targets as a result of our engagement with the company.

Figure 2: Average scores to questions across regions



Source: Schroders

Companies and sectors mentioned herein are not a recommendation to buy/sell any security.

Looking ahead we will continue to scale up our efforts to promote diversity and inclusion in its various forms through our voting and engagement activity. We are also committed to furthering diversity in terms of race and ethnicity and plan to contact companies across a number of different markets to better understand their approach to such issues.

Recruit Holdings – Japan

Members of Schroders' Global Equity and Sustainable Investment teams engaged with Recruit Holdings, a Japan-based technology company specialising in the provision of human resources-related services. Our interactions took place on several occasions between 2018- 2020 to encourage the company to add female members and external independent directors from other regions to its board. While Recruit is a Japanese company, we believe that having diversity in perspectives, backgrounds, business experiences and professional expertise is imperative to ensure that the company is properly equipped to manoeuvre around its international and increasingly volatile business environment.

Our various interactions with Recruit have helped us to better understand the extensive efforts that the company is undertaking to encourage inclusiveness, providing reassurance that it has a robust process to build a diverse pipeline of board candidates, including the appointment of more women. Indeed subsequent to our conversations Recruit has set formal targets to add a woman to their six person board by June 2021 and build upon this progress by appointing another one the following year. They also added their first foreigner to the board at this year's AGM.

These improvements in Recruit's corporate governance structure added conviction to our view around governance and management quality. We believe the company could be leaders in the Japan market, and remain cautiously optimistic of its progress on ESG. We will continue to monitor progress.

Engagement in numbers

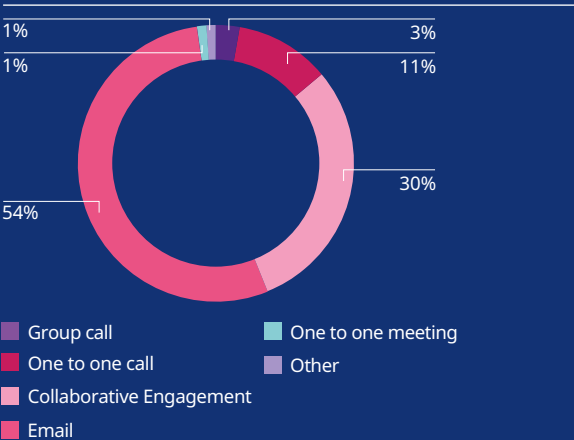
Engagement by tier

Tier	Scope	Number of engagements
1	In-depth, Sustainable Investment team-led engagements	48
2	Analyst/fund manager-led engagement	32
3	Collaborative engagement and communicating expectations at scale	145
4	Influence through actively voting on all holdings and conducting company meetings	3028
5	Industry involvement and public policy influence	Reported annually

Regional engagement (tiers 1 – 3)

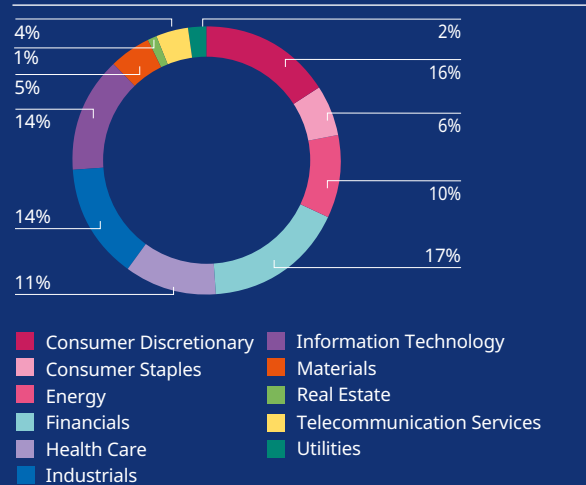


Engagement type (tiers 1 – 3)



Source: Schroders as at 30 September 2020

Engagement by sector (tiers 1 – 3)



Source: Schroders as at 30 September 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).

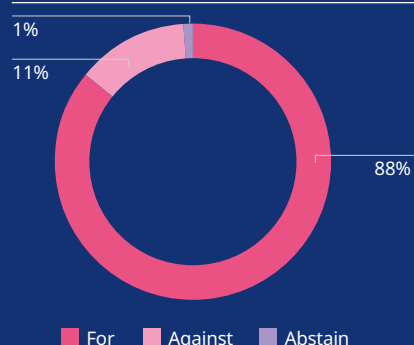
This quarter we voted on **931 meetings and approximately 99.9% of all resolutions**. We voted on **9 ESG-related shareholder resolutions**, voting with **management on 2**.

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

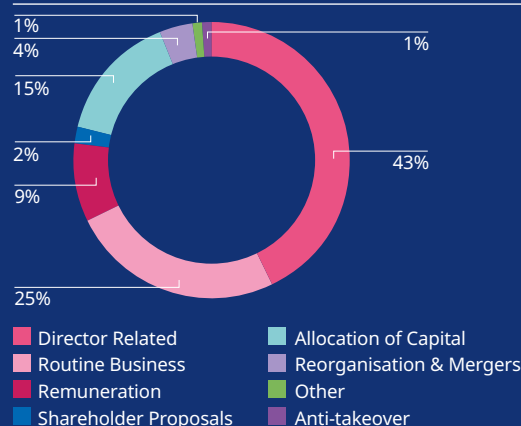


Direction of votes this quarter



Source: Schroders as at 30 September 2020

Reasons for votes against this quarter

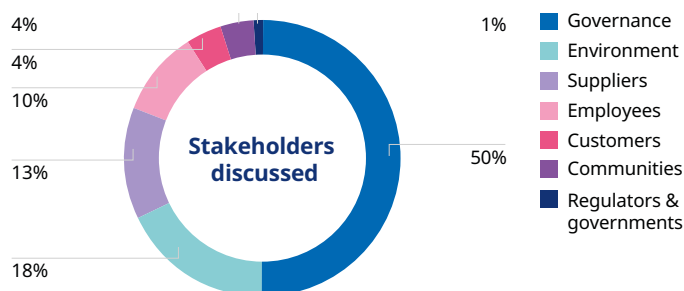


Source: Schroders as at 30 September 2020

Total company engagement

225 tier 1-3 engagements took place this quarter with the 208 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			
Accor		✓	
Adidas			✓
Alibaba	✓	✓	
BMW			✓
Compagnie Financiere Richemont			✓
Continental		✓	
Daimler		✓	
Ford Motor	✓	✓	
General Motors			✓
Hilton Worldwide		✓	
Hyundai Mobis	✓	✓	
Hyundai Motors		✓	
London Quadrant	✓		
Magazine Luiza			✓
Marriott International		✓	
McDonalds		✓	
Multichoice			✓
Netflix	✓	✓	✓
Pets at Home			✓
Peugeot		✓	
Restaurant Brands		✓	
Royal Caribbean Cruises		✓	
Schaeffler		✓	
Sodexo		✓	
Sok Marketler Ticaret			✓

Company	E	S	G
Starbucks		✓	
Starts Corporation	✓	✓	✓
Toyota Motor		✓	
Volkswagen			✓
Whitbread			✓
YUM! Brands		✓	
Consumer Staples			
Anheuser-Busch InBev	✓	✓	
Beiersdorf			✓
BRF Brasil Foods		✓	
British American Tobacco	✓	✓	
China Mengniu Dairy	✓		
Dino Polska			✓
Henkel KGaA			✓
Imperial Brands			✓
JBS	✓	✓	
Kroger	✓	✓	
Reckitt Benckiser		✓	
São Martinho			✓
Ulker Biskuvi			✓
Energy			
BP		✓	
Chevron Texaco			✓
CNOOC	✓		
Ente Nazionale Idrocarburi		✓	
Equinor		✓	

Source: Schroders, 30 September 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
Exxon Mobil			✓
Halliburton		✓	
Idemitsu Kosan		✓	
JXTG		✓	
Koninklijke Vopak		✓	
National Oilwell Varco		✓	
Neste Oil		✓	
Occidental Petroleum		✓	
OMV		✓	
Petrobras Distribuidora			✓
Petrobras			✓
Phillips 66		✓	
Repsol		✓	
Royal Dutch Shell		✓	
Schlumberger		✓	
Tenaris		✓	
Total		✓	
Financials			
Allianz			✓
American Express Co			✓
Accent Capital	✓		
Bank Hapoalim		✓	✓
Bank of America			✓
Barclays	✓		
BBVA	✓		
BlackRock			✓
Bromford Housing Association	✓		
CaixaBank	✓	✓	✓
Citigroup			✓
Clarion Housing	✓		
Deutsche Bank			✓
Deutsche Boerse			✓
Deutsche Postbank			✓
Futures Treasury	✓		
Housing 21	✓		
HSBC			✓

Company	E	S	G
IRB Brasil Resseguros			✓
JP Morgan Chase			✓
Karbon Homes	✓		
LiveWest Treasury	✓		
Munchener Ruckversicherungs-Ges			✓
Optivo Finance	✓		
Platform HG Financing	✓		
Plus500			✓
Provident Financial			✓
Royal Bank of Canada			✓
Skandinaviska Enskilda Banken			✓
Sovereign Housing Capital	✓		
Standard Chartered		✓	
Toronto Dominion Bank			✓
TP ICAP			✓
Turkiye Garanti Bankasi			✓
Vonovia			✓
Wells Fargo			✓
Wendel Investissem			✓
WM Treasury	✓		
Health Care			
Aier Eye Hospital		✓	
Amgen			✓
AstraZeneca			✓
Bayer	✓		
Bormioli Pharma	✓		
Bristol Myers Squibb			✓
CSL		✓	✓
Dentsply Sirona	✓	✓	✓
Fresenius			✓
Gerresheimer		✓	✓
GlaxoSmithKline			✓
McKesson HBOC	✓	✓	
Merck			✓
Novartis			✓
Novo Nordisk			✓

Source: Schroders, 30 September 2020.

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Company	E	S	G
Pfizer Inc			✓
Roche Holding			✓
Sanofi-Aventis			✓
Swedish Orphan Biovitrum	✓	✓	✓
Thermo-Fisher			✓
Industrials			
ABB		✓	
Alstom	✓	✓	✓
Andritz			✓
Boeing			✓
Bouygues		✓	
Caterpillar			✓
DCC			✓
Deutsche Lufthansa			✓
EasyJet		✓	
Eiffage		✓	
Federal Express			✓
FirstGroup			✓
Gamesa			✓
General Dynamics			✓
Hamakyorex	✓		✓
Honeywell			✓
Husky Injection	✓		
Irish Continental			✓
Jacobs Engineering		✓	
Kion			✓
Knorr Bremse			✓
Lockheed Martin			✓
Mtu Aero Engines			✓
Obayashi		✓	
SHIMIZU		✓	
Siemens			✓
Skanska		✓	
Taisei		✓	
United Parcel Service			✓
United Technologies			✓

Company	E	S	G
Vinci		✓	
Wizz Air			✓
Information Technology			
Adobe Systems			✓
Ansys		✓	
Apple			✓
Aveva			✓
BMC Software	✓	✓	✓
Broadcom			✓
Cadence Design Systems		✓	✓
CD Projekt			✓
Facebook			✓
Fidelity National Information Services			✓
Google		✓	✓
Hexagon	✓	✓	
Infineon			✓
Intel			✓
MasterCard			✓
Microsoft			✓
Nvidia			✓
Oracle			✓
Paypal			✓
Qualcomm			✓
Renishaw			✓
Reply	✓	✓	
Samsung Electronics			✓
SAP			✓
Tencent			✓
Texas Instruments			✓
Ubisoft Entertain		✓	
Visa			✓
Wirecard			✓
Materials			
BASF			✓
BHP Billiton		✓	
Covestro			✓

Source: Schroders, 30 September 2020.

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Company	E	S	G
Empresas CMPC	✓		
HeidelbergCement			✓
Orica			✓
Polymetal International	✓		
Rio Tinto		✓	
SIKA			✓
Stora Enso			✓
Voestalpine			✓
Real Estate			
Raven Russia Limited			✓
Telecommunication Services			
AT&T			✓
Deutsche Telekom			✓
Infrastrutture Wireless Italiane			✓
NTT DoCoMo			✓
Turk Telekomunikasyon			✓
Vodafone			✓
Utilities			
CPFL			✓
E.ON			✓
EDP			✓
Electro Power Systems			✓
RWE			✓

Key

- E – Environment
- S – Social
- G – Governance

Source: Schroders, 30 September 2020.

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Engagement progress

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

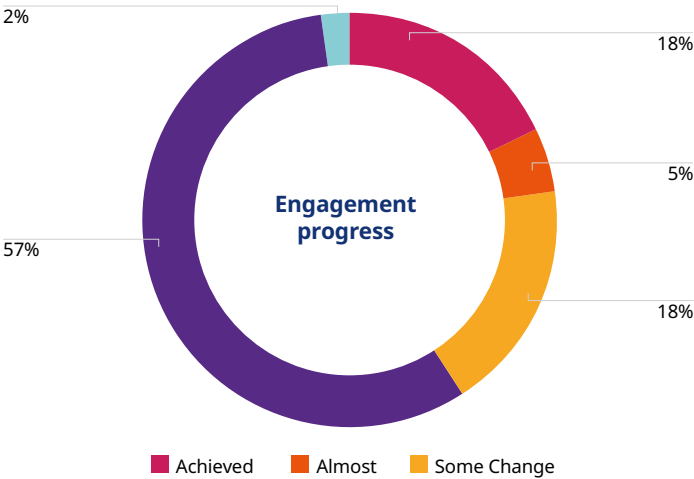
There are five possible results: 'Achieved', 'Almost', 'Some Change', 'No Change' and 'No Further Change Required' (typically because we have sold out of the position).

We 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 Q3 2019, Schroders undertook 40 requests for change classified as tier 1 engagements. Upon reviewing these engagements in Q3 2020, the pie chart below shows a breakdown of the progress we have made.

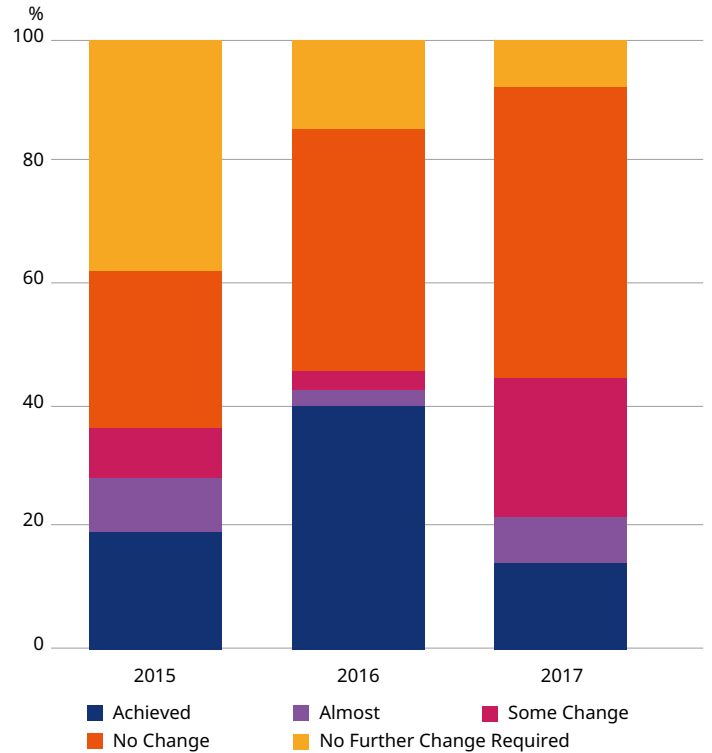
The bar chart below shows the effectiveness of our requests for change over a three-year period. Our experience shows that at least two years of dialogue is typically required before our requests begin to materialise into measurable change within a company. It is for this reason that the two most recent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

Engagement progress from Q3 2019



Source: Schroders as at 30 September 2020

Effectiveness of requests for change - 3 year period



Source: Schroders as at 31 December 2020



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