SUSTAINABLE INVESTMENT REPORT

FIRST QUARTER 2021

Marketing material. Environmental, Social and Governance is referred to as ESG throughout.

Schroders

CONTENTS

2021: a critical year for climate change?

With the delayed 26th Conference of the Parties (COP26) scheduled to take place in November, we expect climate action to be top of the sustainable investing agenda.

Hannah Simons
Head of Sustainability Strategy

Last year was a transformational year for sustainability and this looks set to continue in 2021.

After a bumper year for flows into sustainable funds in 2020 this trend has continued, as they experienced positive flows in the first two months of this year, according to estimates by JP Morgan based on Lipper data.

In its 2021 update, the World Economic Forum's annual global risks report highlighted that four of the five most likely risks business leaders identified were environmental. We also expect climate change to take centre stage this year ahead of the delayed COP26, which is scheduled to take place at the beginning of November.

In this report we put the spotlight on environmental issues too, with a number of climate-related articles.

These include a Q&A with Andy Howard, Global Head of Sustainable Investment, on Schroders' founding membership of the Net Zero Asset Managers initiative and how FTSE 350 companies have responded to our Group Chief Executive Peter Harrison's request to prepare and publish their plans for a decarbonisation of the global economy.

We also look at how the transition to a low-carbon economy is going to impact banks and autos. The former sector, banking, is highly exposed to fossil fuels, an industry facing significant financial, regulatory and reputational risks, while the latter requires a shift in business model towards technology solutions. Our analysts have engaged with companies in both sectors to better understand their exposure to these risks and opportunities.

Beyond climate, our latest report looks into a number of other key sustainability issues.

In Europe, new sustainability regulation in the form of the Sustainable Finance Disclosure Regulation (SFDR) became a reality on 10 March. With transparency and disclosure at its heart, the focus is shifting from "telling" our clients about our approach to sustainability to "showing" them the evidence of what we have been doing. SFDR is one part of the EU's broader sustainability policy initiative and Anastasia Petraki, Head of Policy Research, helps navigate this complex web of new rules.

In the US, there is growing recognition of the income inequality challenge. Sarah Bratton Hughes, Head of Sustainably North America, considers the minimum wage debate.

Meanwhile, the 2020 voting season saw companies switch to virtual annual general meetings (AGMs). Daniel Veazey, Head of Corporate Governance, shares his thoughts on what the 2021 season has in store. Spoiler alert: virtual AGMs will certainly continue to play a role!

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

How to understand the EU's growing rulebook on sustainable investing

New EU sustainability regulations will affect many in financial markets. We look at some of the Sustainable Finance Action Plan's new rules.

Anastasia Petraki
Head of Policy Research

In the last few years, new words have been invading our everyday vocabulary. We have gone from "climate change" and "green economy" to the more specialised "sustainability" and "integration", and the utterly bizarre "principal adverse impacts" and "taxonomy". What is happening?

There is new sustainability regulation coming from the EU which affects asset managers, companies, investment advisers and many others in financial markets.

At the heart of it lies the fact that climate change is getting harder to ignore. Policymakers have realised that tackling it and all its consequences will take a lot of effort.

The EU's "call to arms" came in the form of the EU Green Deal, according to which the EU should introduce an elaborate framework of policies and new regulations in order to achieve net zero emissions by 2050. A very long list of things need to change in the real economy such as: how we build houses, how we travel from A to B, how the things we buy in the supermarket are packaged, where the energy for cooking and heating comes from, how long our smartphone batteries last and so on.

The initial investment required to deliver all this is estimated to be about €2.6 trillion by 2030[1]. Approximately half of it will come from various public sources such as the EU budget. The other half is expected to come from private investment, which is what the regulation driven by the EU Sustainable Finance Action Plan is supposed to deliver.

Although quite elaborate in its structure, the plan has one ultimate objective – to shift investment towards more sustainable projects and businesses so that we transition to a low-carbon economy faster.

There are many obstacles that stand in the way – such as market fragmentation, unclear labelling for investment products with sustainability features and insufficient company disclosures to assess sustainability. Every bit of regulation connected to the Sustainable Finance Action Plan is trying to remove or overcome these obstacles. This includes:

- Having a common language on what is sustainable and what is not **(The EU Taxonomy Regulation)**
- Companies reporting the corresponding sustainability information in their accounts **(Non-Financial Reporting Directive)**
- Having clear investment disclosures on sustainability both at the firm and product level **(Sustainable Finance Disclosures Regulation)**
- Financial advisers having an explicit discussion with clients on their sustainability preferences **(amended Markets in Financial Instruments Directive II suitability rules)**

The full list of new regulations is much longer than what we have identified above. This is because, to achieve its very ambitious objective, the regulation should touch upon every single part of the investment chain: asset owners, asset managers, advisers, credit rating providers, benchmark providers and so on.

To understand how this is supposed to work, we can look at it from an information flow perspective.

First, companies report on their activities and flag the extent to which these are sustainable as per the new regulation. Then institutional investors (asset managers, pension funds and insurers) can take this information, use it to allocate money and, in parallel, report on how they approach sustainability in their business and whether their products have sustainability features.

"The plan has one ultimate objective –to shift investment towards more sustainable projects and businesses so that we transition to a low-carbon economy faster."

Anastasia Petraki, Head of Policy Research

1 Source: European Commission Green Deal Investment Plan

Then advisers can look at which investment fund, pension or insurance provider has incorporated sustainability into its investment approach and which products are environmentally sustainable. They can then recommend those to end-investors with a preference for sustainability.

And, the final link in the chain, end-investors will be able to see from all disclosures which providers and which of their products are sustainable and/or follow adviser recommendations to buy into these products.

We've written a long paper which explores in more detail both the regulation coming out from the Sustainable Finance Action Plan and who along the investment chain is supposed to do what. This document is for professional investors only.

While there are risks to the successful implementation of the plan, with careful planning and co-operation across industries and borders, these risks can be addressed. One thing is for sure: there is still a lot to do. If the last couple of years have been about shaping the new regulatory landscape, the next couple of years will mainly be about implementing all the changes. Some along the investment chain will have to be nudged more than others but the goal is for everyone to improve. These are the first steps in the right direction for what is ultimately going to be a long journey towards a more sustainable future.

Some may consider the EU the leader in sustainability regulation. This is true in the sense that the EU has been the first one to set the foundations for a sustainable finance framework and has a head start in developing the corresponding regulation.

But others, particularly in Asia, are close at its heels and, in some cases, even use the EU framework as an inspiration.

Look out for our new paper in which we discuss how regulatory change to support sustainable finance is progressing on a global basis. This document is for professional investors only.

The US minimum wage debate: mission impossible or mission critical?

Increasing the federal minimum wage to $15 per hour has become contentious. While debate focuses on whether benefits outweigh the costs, we offer a different perspective – and potential solution.

Sarah Bratton Hughes
Head of Sustainability, North America

America has an income inequality problem, and it's not new. Recent political and social events have brought the problem to the forefront in recent years, and it was sharply exacerbated in 2020 due to the Covid-19 pandemic.

One of President Biden's recently announced initiatives is to seek to raise the Federal minimum wage from $7.25 to $15 per hour. Many corporate lobbyists argue that such a move will either force companies to pass the added costs onto consumers, or trigger cost-cutting measures that can hurt businesses in human-resource-sensitive industries such as services, retail, restaurants and manufacturing.

While it's true that achieving a living wage for all working Americans is not an easy initiative, and there are costs associated with paying such a level of wages, many economists agree that job quality is one of the top drivers for labour market participation and GDP growth. They argue that giving people a decent living wage could outweigh the costs from a macro-economic perspective, and potentially even force companies to innovate and achieve new efficiencies.

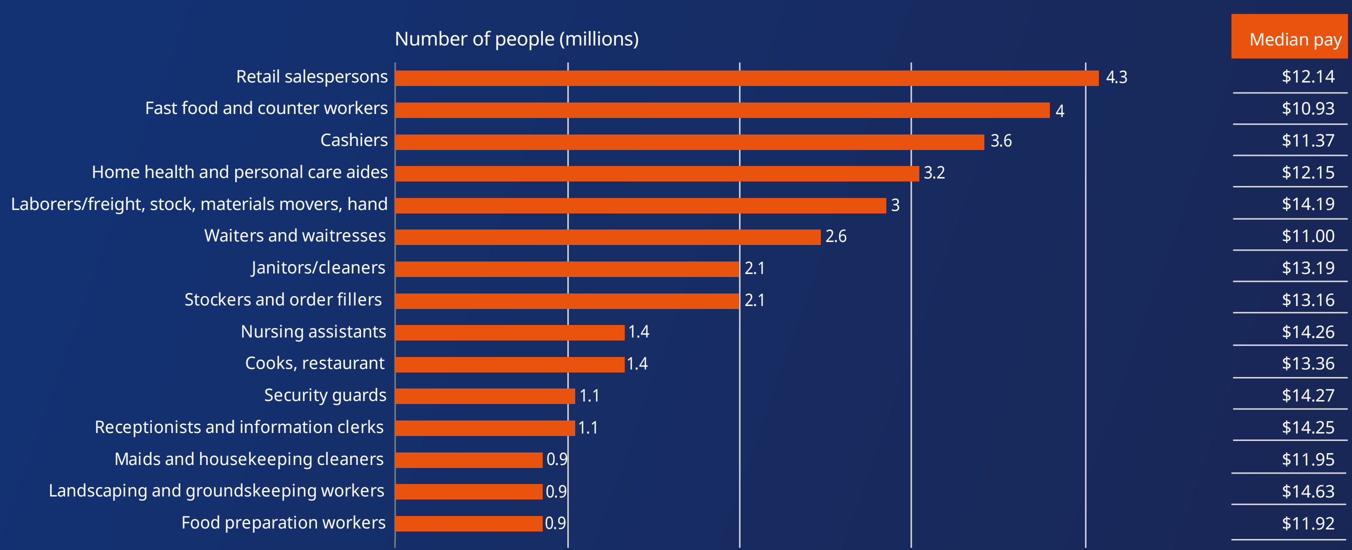
THE $64,000 QUESTION: IS $15 PER HOUR THE RIGHT LEVEL?

In 2019, 46.5 million Americans were working in occupations where the median wage was less than $15 per hour[2].

To put this into perspective, let's assume a worker (with family) makes the median wage of $15 per hour. If they work a full-time schedule of 40 hours a week for 52 weeks a year (no holiday, sick-days or vacation time), that would generate annual earnings of $31,200 a year, before taxes. Utilitising the data put together by Zippia and the MIT Living Wage Calculator you can see that $31,200 is below the living wage *in every state.*

2 Source: US Bureau of labor statistics

FIGURE 1: THE 15 LOWEST-PAYING OCCUPATIONS AND NUMBER OF PEOPLE EMPLOYED WITHIN



Source: Gallup 2021

SO SHOULD THE DEBATE FOCUS MORE ON JOB QUALITY THAN JUST WAGES?

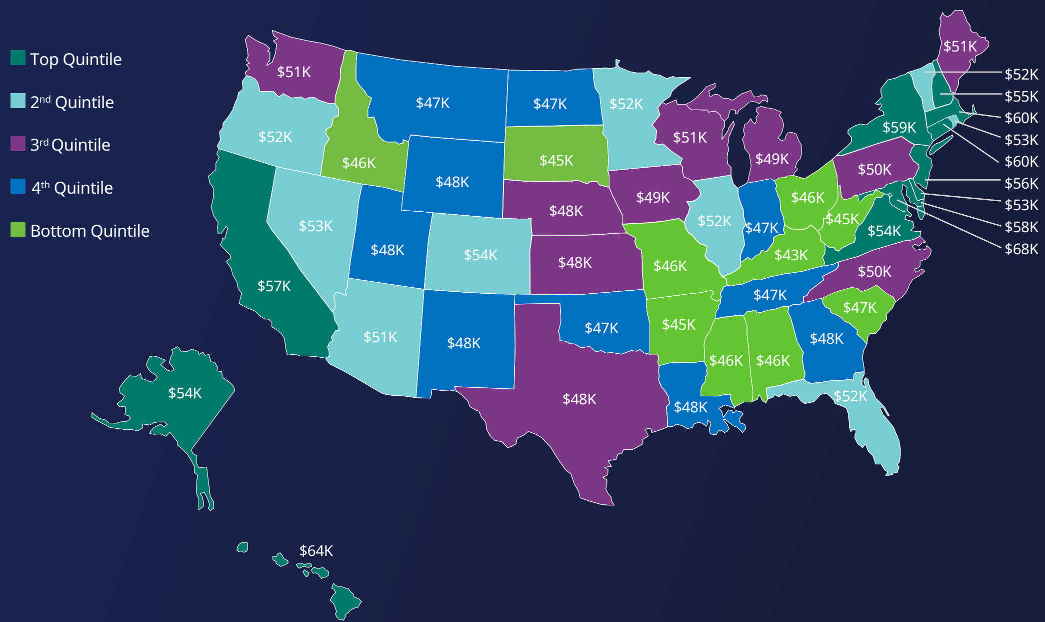
A good job is not just about higher wages, although this is a meaningful part of the equation. It is also about providing other basic needs including access to health care, retirement plans, training, steady hours, and equal opportunity for promotion.

Here too, many companies will argue that the added costs of such benefits would be a significant detriment to their bottom lines. We would argue that people employed in poor-quality jobs are likely to be presenting costs to businesses – with many employers not being aware of this.

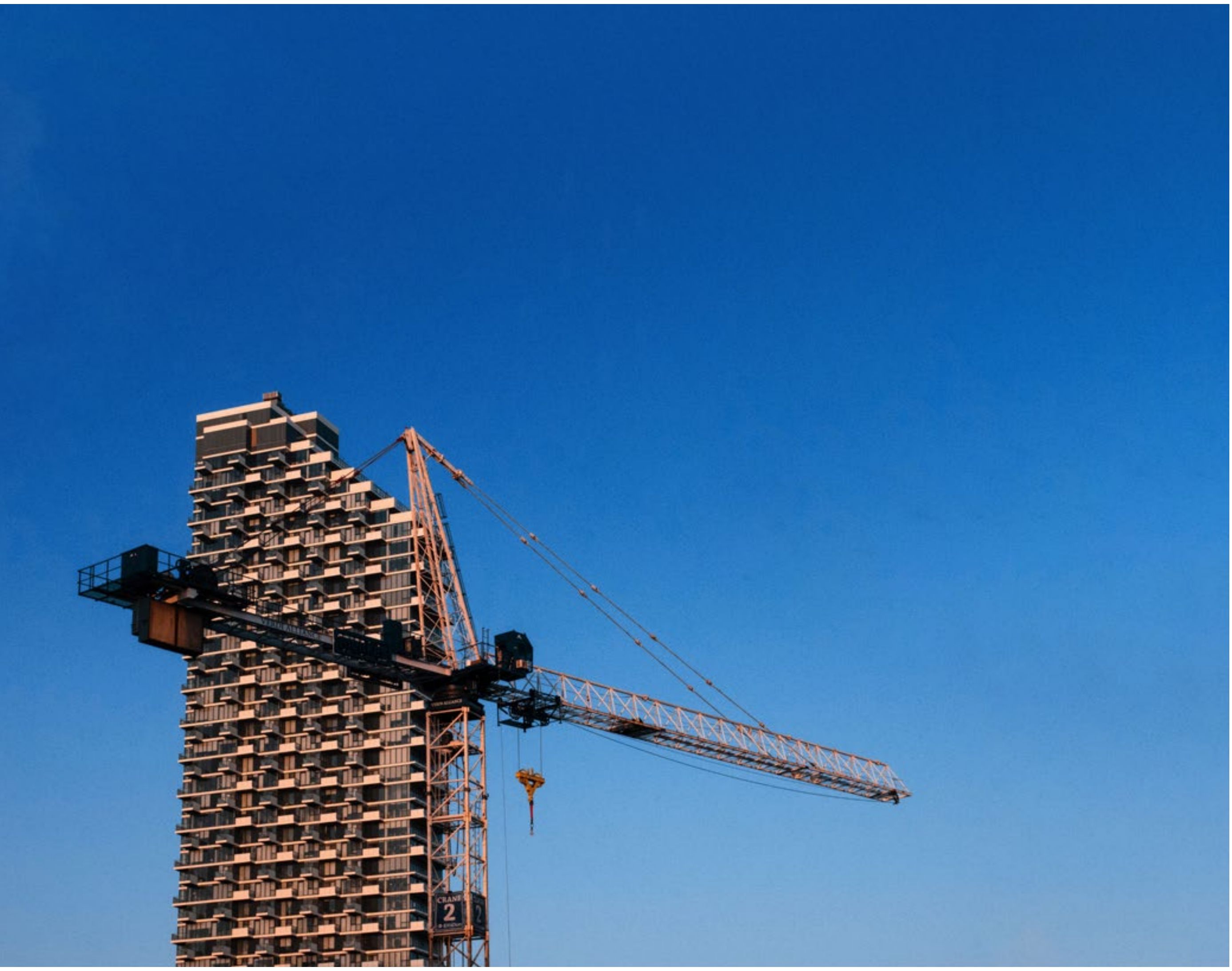
The estimated costs of disengaged employees are significant: 37% higher absenteeism, 18% lower productivity and 15% lower profitability – all of which amount to an estimated overall cost of 34% of a disengaged employee's salary. In other words, a disengaged employee can potentially cost $3,400 for every $10,000 earned[3].

3 Source: Gallop, 2021

FIGURE 2: A $15/HOUR WAGE IS NOT SUFFICIENT TO PROVIDE A LIVING WAGE ANYWHERE IN THE US. HOW MUCH IS THE LIVING WAGE IN EACH STATE?



Source: MIT, Zippia, as of March 2020. The living wage shown is the wages that an individual in a household must earn to support his or herself and their family.



WOULD A HIGHER WAGE SOLVE THIS?

Much discussion focuses on the “risk” perspective and how higher human-resource costs can impact an organisation. However, there are significant value creation opportunities from investing in employees. Studies[4] show that reducing employee turnover by 50% can increase productivity by 20%. Higher-paid staff help create a culture of hard work which often results in greater customer service and loyalty. Higher employee engagement has been shown to be correlated with strong sales (+20%) and profitability (21%). Even more importantly, higher staff engagement results in about 70% fewer safety incidents and a 41% drop in absenteeism.

Professor Zeynep Ton is the founder of The Good Jobs Institute and has written extensively on this topic. She argues that offering living wages and investing in staff over the long term can lead to operational superiority and higher sales and profits. If effectively implemented, she claims a “Good Jobs” framework dispels the myth that higher wages always lead to lower returns.

More quality jobs are also essential for a more equitable economy. Closing the job quality gap is also key to a stronger long-term US economy as the purchasing power of those most adversely impacted by a lack of quality jobs will continue to rise.

TIME TO MOVE THE DEBATE

We would suggest the debate needs to become a question of whether industries are prepared to look deep within their balance sheets and business models to find ways of offering employees minimum levels of hourly wages, benefits and regular shift frequency. We would challenge companies to look beyond the short term. They need to be willing to sacrifice the short-term pain (for example, higher wages) for the potential long-term gain in the form of increased productivity, market share and earnings.

The social benefits are obvious. The political structure, too, seems to be in place for this to become a reality. From the investment angle, the stakeholder discussion has become much more transparent and there’s now greater pressure on businesses – both private and public – to do right by their employees.

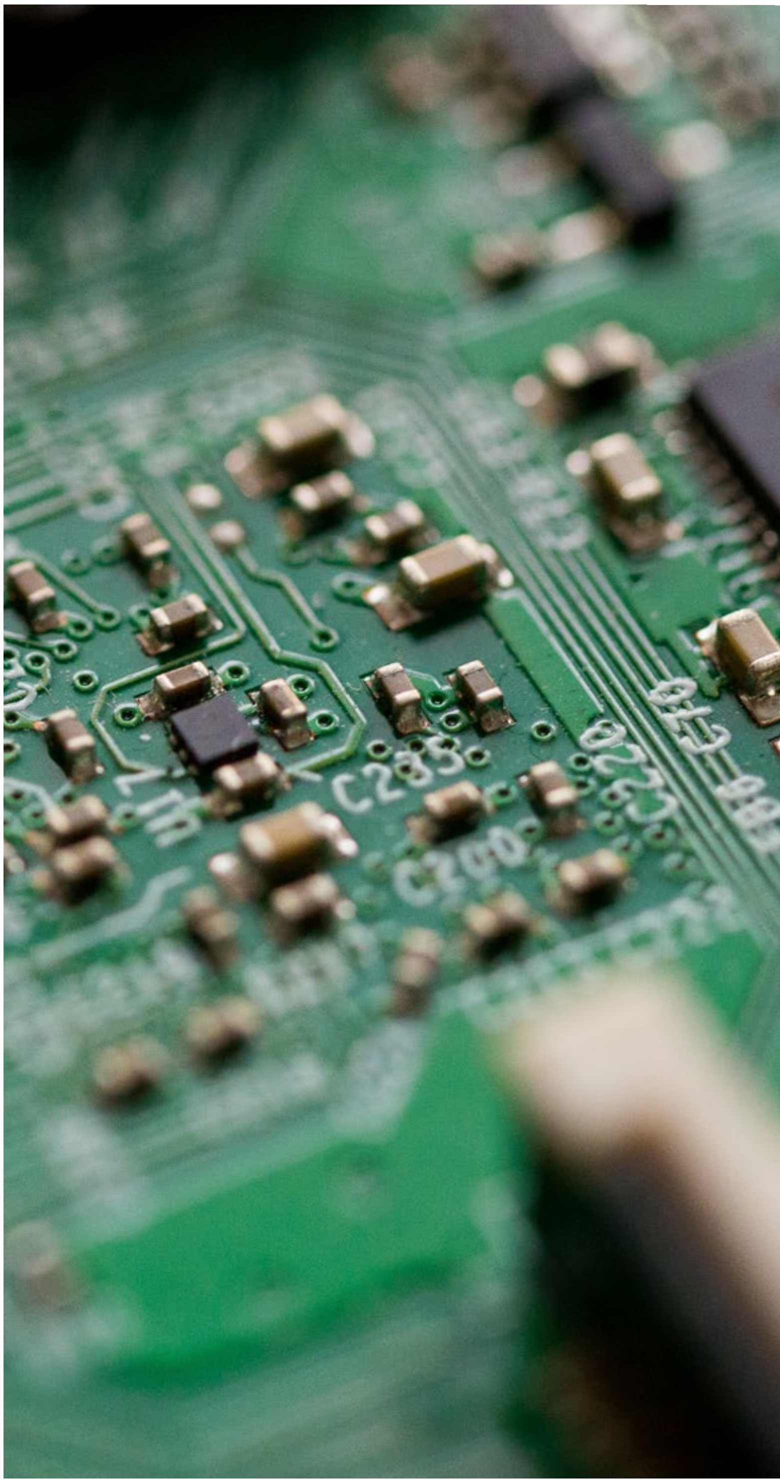
In our opinion, those companies unwilling to innovate toward considerations such as a $15/hour wage will face pressure from consumers and competitors who are finding ways to accomplish such things and who will remain profitable, and ultimately benefit. As investors, we are keen on engaging with both sides of the wage debate. But as with all disruptive forces, only the strong will survive.

4 Source: The Case for Good Jobs – Harvard Business Review, November 2017

Voting season outlook

We look at the areas of focus and key drivers to our voting and engagement for 2021.

Daniel Veazey
Head of Corporate Governance



As we turn our back on 2020 and look towards the 2021 voting season, things aren't looking as rosy as we'd all hoped they would by now. The pandemic will continue to have an effect on the ability of companies to hold meetings and communicate with investors, as well as align shareholders' expectations to managements' performance.

As we prepare for the annual season, we share some of our thoughts on the areas of focus and key drivers behind to our voting and engagement for 2021.

ANOTHER YEAR OF VIRTUAL AGMs?

There were temporary relaxations on specific requirements of the Corporate Insolvency and Governance Act to allow companies to hold AGMs virtually in 2020. While supportive of this move in the short term, the ability for all shareholders to participate and communicate with management is our prime concern. With government restrictions rolling into 2021, there has been more focus on changes to company articles with not only amendments to allow meetings virtually but also hybrids of online and in person. In our opinion, virtual meetings should only be used in exceptional circumstances to allow flexibility. There should be a commitment to hold face-to-face meetings if restrictions allow. Where virtual meetings are being used, we need to see clear procedures in place to allow all shareholders to raise questions without filtering and have the technology to facilitate this.

"The pandemic will continue to have an effect on the ability of companies to hold meetings and communicate with investors."

Daniel Veazey, Head of Corporate Governance

REMUNERATION

Reflecting on the impact of Covid-19, the alignment of pay with shareholders and the wider workforce is driving current engagements. There is an expectation that remuneration committees use appropriate discretion and don't look to increase outcomes if targets have not been met. We are of course sympathetic to the fact that financial targets are impacted by current affairs – we would only be supportive of upwards discretion in exceptional circumstances.

This year we expect increased scrutiny on remuneration and the disclosure of approach taken to align with the experience of the wider workforce and shareholders. The impact of government support, potential redundancies and the suspension or cancellation of dividends influences our support. Culturally, boards should be aware of the impact their pay will have on all employees.

Companies moving to alternative remuneration schemes such as restricted share awards will need to explain the strategic reasoning. We will not support a change in schemes if meaningful targets can realistically be set. We will continue to engage with companies moving to these schemes to understand the impact of outcomes and whether this is a short-term move for stability.

Understandably, we seek to support boards and remuneration committees to give clear guidance of the appropriateness of their policy. Committees should read the room and note that short-term changes to pay could impact the long-term culture of their organisation.

"On ethnic diversity we are looking for companies to be more transparent on their board's ethnic diversity, to explain policies and how they are developing their internal pipeline."

Daniel Veazey, Head of Corporate Governance

NON-FINANCIAL TARGETS

We support the long term sustainability of companies and their commitment to achieve net zero targets. To achieve these goals, remuneration committees have started to discuss implementing specific targets within pay as an indicator of progression. We see an increasing number of companies providing a narrative on climate-related issues with 2030 and 2050 goals, but look for them to disclose how progress will be monitored. We also see companies focusing on health and safety, customers, workforce and more socially-focused goals. As with all non-financial targets, we expect targets to be measurable, transparent and tied to a strategic goal.

STRETCHED BOARD MEMBERS

Companies are complex. We support independent directors challenging and collaborating to drive companies forward, but we are conscious that the time commitment is increasing. Directors need sufficient time to be effective representations of shareholders' interest. Covid-19 has shown us the need for directors not to stretch themselves across too many external boards. Over-boarding was one of the main reasons we voted against directors in 2020 and we expect this will only increase in 2021. We also incorporate chairs and chairs of committees into our analysis. Where non-executive directors hold a position as chair of a company or chair of an audit or remuneration committee, we expect the individual to hold no more than two other positions.

DIVERSITY

The Davis review set a 2016 deadline for FTSE 350 companies to improve the representation of woman on boards and in leadership positions. We continue to engage with investee companies based on the recommendations of the Hampton-Alexander review, and in particular the focus on women in executive roles. While globally we vote against all-male boards and against the head of the nominating committee, we strive for 33% female representation on boards for FTSE 350 companies, a milestone that Schroders itself achieved in 2020. While we support "comply or explain" in the governance space, we believe diversity is not an area that needs explaining. On ethnic diversity we are looking for companies to be more transparent on their board's ethnic diversity, explain policies and how they are developing their internal pipeline. A lack of transparency in this area will lead to a vote against the nominating committee chair in 2022.

Schroders and the Net Zero Asset Managers Initiative

Schroders became a founding member of the Net Zero Asset Managers Initiative in 2020. What is the initiative, why did we join it and what does it mean for Schroders?

Andy Howard
Global Head of Sustainable Investment

Climate change and the need to reorient the global economy towards decarbonisation is a key component of any discussion on sustainability. In December 2020, Schroders joined 29 other asset managers to launch the Net Zero Asset Managers Initiative. We look at what this means for Schroders.

WHAT IS THE NET ZERO ASSET MANAGERS INITIATIVE?

The Net Zero Asset Managers Initiative is a group of international asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner. Put another way, it brought together asset managers in control of $9 trillion, or around 5% of globally managed assets, committed to aligning the funds they manage with the decarbonisation pathway global leaders committed to through the Paris Accord.

WHY DID WE JOIN?

Climate change will be an unavoidable force across economies, industries and investment portfolios in the coming years. As an active asset manager, we are well-placed to navigate the resulting risks and opportunities through the analysis we apply and the opportunity we have to push companies to plan for and execute on the transition towards net zero carbon emissions. Our Net Zero Asset Managers Initiative commitment underlines our intent to partner with our clients and investee companies toward that goal. We hope and encourage more of our peers across the industry to follow suit.

WHAT EFFORTS AND INVESTMENTS HAS SCHRODERS MADE AS A FIRM TO PREPARE FOR THE TRANSITION TO A LOWER CARBON GLOBAL ECONOMY?

We have built tools and infrastructure to help our investment teams measure and manage the risks associated with the transition process and to track their alignment to a net zero pathway.

For example, our Carbon Value at Risk (VaR) and Physical Risk models examine the impacts of higher carbon prices and rising physical damage respectively. By our estimates, up to 20% of the value of global equity indices is at risk under a scenario in which we transition toward the commitments made under the Paris Agreement (to keep global temperature rises to less than 2ºC above pre-industrial levels by the end of the century). On the other hand, up to $2 trillion of investment will be needed every year to meet those goals, with commensurate opportunities.

However we frame it – as risk or opportunity – these pressures underpin the need to ensure our clients' assets are aligned with, rather than against, one of the biggest forces shaping capital markets in the decades ahead.

WHAT COMMITMENTS ARE INVOLVED IN THE INITIATIVE?

As part of this initiative, we commit to:

- Work in partnership with asset owner clients on decarbonisation goals, consistent with an ambition to reach net zero emissions by 2050 or sooner across all assets under management;
- Set an interim target for the proportion of assets to be managed in line with the attainment of net zero emissions by 2050 or sooner;
- Review our interim target at least every five years, with a goal of ratcheting up the proportion of assets covered until 100% are included, as efforts to structurally decarbonise economies play out.

HOW MANY COMPANIES AND COUNTRIES HAVE COMMITTED TO NET ZERO 2050?

The disconnect between policymakers, companies and investors is stark. Today, governments representing close to two-thirds of global GDP have committed to net zero emissions in the next few decades.

Around one-fifth of global, listed companies have themselves committed to emissions reductions in line with the Paris Accord, through the Science Based Targets initiative. The number of governments and companies in these camps are rising quickly.

However, asset managers representing well under one-tenth of professionally managed assets have made a similar commitment. Through that lens, the commitment we made last year was less a risky bet on the future and more a necessary commitment to change in line with the countries and industries in which we invest.

WHAT CAN WE DO AS INVESTORS TO SUPPORT THE TRANSITION?

There are two ways we can align portfolios to the net zero pathway that is looking increasingly likely. On the one hand, we can invest in companies and securities that are themselves aligned to that change. On the other, we can encourage the companies in which we are already invested to adapt.

As engaged and active managers, we see engagement as a key element of our responsibilities and the opportunities we have to create value for our clients (see p14). Earlier this year, we wrote to the leaders of FTSE 350 companies in the UK, asking them to prepare, and publish their plans for, the decarbonisation transition ahead. That effort built on the platform of climate engagement we have developed over recent years, starting with our first climate-focused engagement in 2002 and reaching more than over 200 in the last year alone. Going forward, we plan to push companies to take similar steps in countries beyond the UK.

WHAT IS LIKELY TO BE THE MOST PRESSING ISSUE DISCUSSED AT COP26?

The principle of a "just transition" – ensuring the transition to a low carbon global economy does not unduly disadvantage weaker economies or parts of societies – has gathered pace. As a global challenge, climate change requires coordinated global action. Through that lens the just transition is both a goal and a requirement; global agreement across policymakers representing every part of the global economy will not be possible unless all consider the plan fair.

Failure to reach such an agreement has been the major headwind to faster action in past global conferences. As a result, we expect the need for global coordination and support to less developed economies to be a major component of negotiations in the run up to, and throughout, COP26.

IS HAVING A NET ZERO TARGET ENOUGH? WHAT IS THE DIFFERENCE BETWEEN TAKING ACTION AND MAKING A COMMITMENT?

In itself, a target means little. We view targets as a commitment to change, but the tangible actions companies take and the progress they deliver is the vital fuel to that goal. Similarly, in our firm, the efforts we are making beneath the surface to drive change across our own operations as well as the portfolios we manage is what really matters, not the headlines of our goals.

> ***"Asset managers representing well under one-tenth of professionally managed assets have committed to Net Zero 2020."***
>
> ***Andy Howard, Global Head of Sustainable Investment***

SUSTAINABILITY INSIGHTS

Sustainability insights round-up

From an A–Z of sustainability terms for investors to how Covid-19 has changed the conversation around sustainable investing, here's a snapshot of what Schroders published in the first quarter of 2021 on the topic of sustainability.

An A-Z of sustainability terms for investors

How data science helps sustainable investors

The "three Ps" that are crucial for sustainable investing

Climate Progress Dashboard: will 2021 be the year of decisive change?

Why renewable energy could gain from the green hydrogen trend

The investor's dilemma: do sustainable funds need a digital detox?

US pension rules could slow – but not halt – the use of sustainable investments

Has Covid-19 changed the conversation around sustainable investing?

What is an impact bond? A specialist fund manager explains

The race to net zero: our call for action

We have written to hundreds of companies asking them to publish their net zero transition plans. Schroders' head of engagement shares why this information is important for us as investors and what response the business has received.

Elly Irving
Head of Engagement

Sustainability has been an area of focus for Schroders for more than two decades, with our ambition and capabilities in this space continuing to grow and evolve in recent years. Looking ahead, climate change is one of our greatest concerns. By 2050 we may find the effects of the Covid-19 pandemic will be dwarfed by the consequences of unchecked global warming.

As a global active asset manager, we have an important role to play in encouraging companies and other stakeholders to plan for and execute the transition towards net zero emissions and limit long-run temperature rises to 1.5°C.

In January, following our decision to join the Net Zero Asset Managers Initiative in 2020, and as part of our ongoing engagement with companies on important sustainability issues, our Group Chief Executive wrote to the heads of FTSE 350 companies (excluding investment trusts), asking that they share their net zero transition plans in 2021.

WHAT DOES IT MEAN TO REACH NET-ZERO EMISSIONS AT THE CORPORATE LEVEL?

According to Science Based Targets initiative (SBTi), reaching a state of net-zero emissions for companies consistent with achieving net-zero emissions at the global level in line with societal climate and sustainability goals implies two conditions:

1. To achieve a scale of value-chain emission reductions consistent with the depth of abatement achieved in pathways that limit warming to 1.5°C with no or limited overshoot and;
2. To neutralise the impact of any source of residual emissions that remains unfeasible to be eliminated by permanently removing an equivalent amount of atmospheric carbon dioxide.

The letter urged FTSE 350 companies to produce and publish detailed, costed plans for how they intend to transition their businesses towards net zero emissions by 2050, in line with commitments made by the UK government to end the country's contribution to global warming by 2050. This also reflects best practice as highlighted by the Task Force on Climate-related Financial Disclosure (TCFD) and Science Based Targets initiative (SBTi).

WHAT IS A DETAILED, COSTED PLAN?

When looking at companies' roadmaps to become net zero, we look at a variety of different factors:

- Has the company published its plans?
- What actions is the company taking to meet net zero emissions in the future?
- Does the company understand the financial implications of its net zero commitment?
- How does the company deal with the uncertainty inherent in a 10 to 30-year plan?
- Has the company considered the implications of its net zero commitment on its workforce and other stakeholders?

Out of the 295 companies contacted, 42 had responded at the time of writing, with nearly half providing further detail on their climate transition plans.

In some cases, our engagement has already had an impact. One company recently committed to being a net zero business by the end of 2021. They told us our letter was "the straw that broke the camel's back". Whilst this is a step in the right direction, we highlighted that their approach, which relies on off-sets alone, was not a long-term solution and we will continue to monitor further progress. Another had already committed to net zero but had not yet published targets or details on how it would achieve its goals. Following our meeting with the company, they told us they had shared our letter with the relevant teams and were submitting a paper on the issue to the board.

"Our preliminary analysis has identified around 60 companies that have already made a commitment to net zero emissions by 2050 or earlier."

Elly Irving, Head of Engagement

INITIAL INSIGHTS FROM OUR ENGAGEMENT AND RESEARCH

Our preliminary analysis has identified around 60 companies that have already made a commitment to net zero emissions by 2050 or earlier. More than half these companies with a net zero commitment have also set (or intend to set) a science-based target as part of the SBTi. These targets tend to cover a shorter time period than net zero commitments.

Industry initiatives have proved highly influential in the development of a company's net zero plan. For example, the Better Buildings Partnership's Net Zero Carbon Pathway Framework has been designed to support the climate change commitments of real estate companies. As a result, this sector has some of the strongest examples of detailed, costed plans currently available.

The findings of our engagement have given our investors a better understanding of which companies are well-placed to transition to a Paris-aligned world. This contributes to our analysis of companies and sectors, and in turn feeds into our investment decisions.

ACTIVE OWNERSHIP

How we're engaging with banks on their fossil fuel financing

We engaged with a number of banks in order to understand their exposure to the fossil fuel industry. Our sustainable investment analysts explain why and how we did this, as well as how the information feeds into our investment processes.

Carol Storey
Sustainable Investment Analyst

Vardhman Jain
Credit Analyst

Robert Kendrick
Credit Analyst

"For banks, fossil fuel financing far outweighs sustainable financing. Banks that are highly exposed to the fossil fuel industry face significant financial, regulatory and reputational risks as a result of the transition to a low-carbon economy."

Carol Storey, Sustainable Investment Analyst

Although "net zero" is gaining momentum across the world, overall levels of commitment remain low in the banking sector. At the time of our initial analysis in the middle of 2020, less than 20% of the global banks included in our universe had committed to aligning their financing activities with the goals of the Paris Agreement or a national net zero ambition, or committed to set a science-based target.

For banks, fossil fuel financing far outweighs sustainable financing. Banks that are highly exposed to the fossil fuel industry face significant financial, regulatory and reputational risks as a result of the transition to a low-carbon economy.

As Schroders holds many bonds in the banking sector, we are keen to identify potential winners and losers in the global transition towards net zero.

RESEARCH

As part of our thematic research on this issue, our credit and sustainable investment teams developed a scorecard to help fund managers understand how a bank is performing against a number of factors relating to fossil fuel financing. Using both conventional and unconventional sources of data, banks are assessed on the scale of their fossil fuel financing activities, strength of long-term climate strategy and vision, sustainable financing capabilities, maturity of climate governance and risk management, and quality of climate reporting.

The scorecard is used to prioritise companies for deeper analysis and engagement. It currently covers more than 100 of the world's largest banks plus a group of selected smaller banks to make sure we have sufficient coverage of the credit team's banking exposure.

ENGAGEMENT

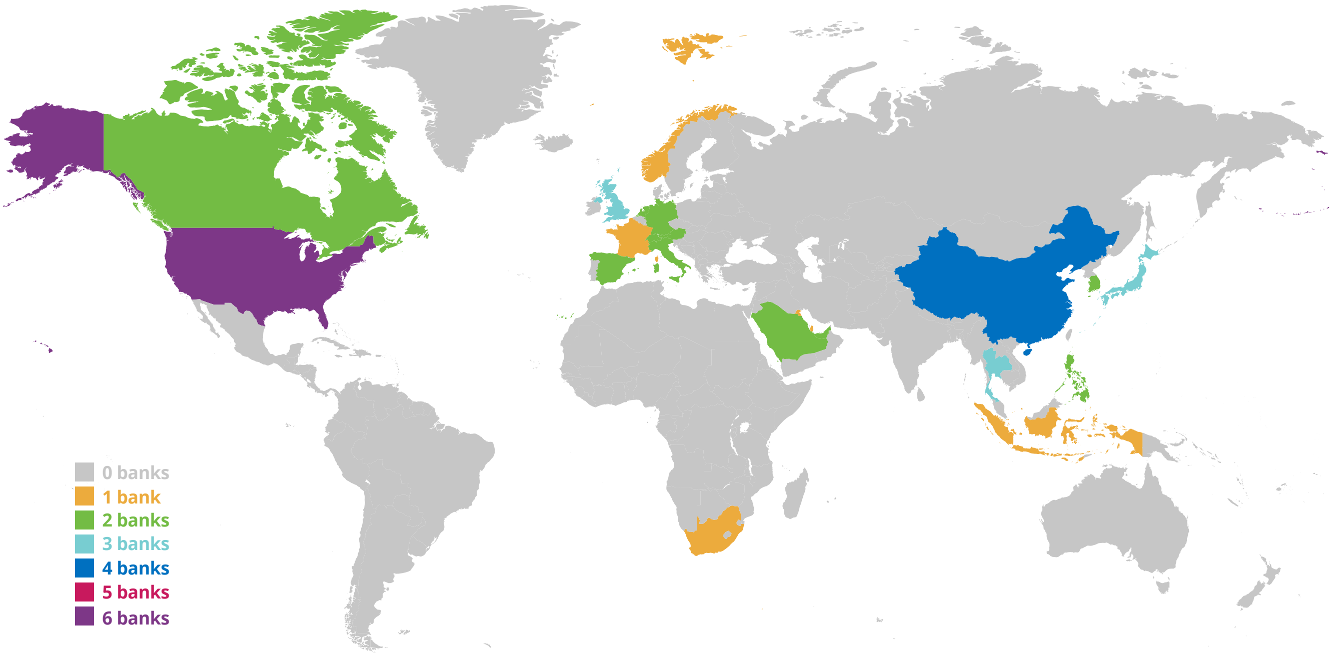
Our credit team, along with a number of equity teams, selected around 50 banks across Europe, North America and Asia for deeper analysis and engagement. Their focus was on top financers to the fossil fuel industry as well as banks that may be highly exposed to the fossil fuel industry through their balance sheets.

Following each engagement, we highlight three to four objectives we'd like the bank to work on over the next 12 months. Examples include:

- Development of a commitment to align the bank's financing activities with the goals of the Paris Agreement, plus related milestones and targets;
- Reviewing and strengthening the bank's fossil fuel policies in line with latest science and / or good practice;
- Development of TCFD (Task Force on Climate-related Financial Disclosures) / climate risk reporting, including disclosure of additional climate metrics.

For banks that have already made progress in these areas, our discussions have focused on the robustness and evolution of their measurement and target-setting methodologies in relation to the bank's commitment to align its financing activities with the Paris Agreement.

FIGURE 3: NUMBER OF BANKS WE HAVE ENGAGED WITH PER COUNTRY



Source: Schroders, 31 March 2021.

THE RESPONSE SO FAR

While it is still too early to assess the impact of our discussions, we have had a good response from banks so far. Out of the 50 banks contacted over the last six months, we'd met with 21 by end of March 2021.

Over the last six months, we've seen a huge amount of positive momentum on this issue, with banks strengthening fossil fuel policies, improving climate risk disclosure and committing to align their financing portfolios with the goals of the Paris Agreement.

We've identified a breakaway group of leading banks that already have, or will soon have, targets and detailed plans backing their financing commitments and are well positioned to finance the global energy transition.

But we've also identified hurdles around data collection, lack of internal resources available to support this issue, and concerns around the lack of an established portfolio measurement and target-setting methodology.

For these companies, our engagement has helped us point banks towards good practice we have seen elsewhere. But ultimately, banks that do not show progress on the issues we have raised with them may have environmental ratings downgraded in future assessments.

Once we've completed our first round of engagements, we plan to engage additional banks and extend our scorecard to include other types of financial companies such as insurers.

INTEGRATION INTO OUR INVESTMENT PROCESS

Credit ESG individual company assessments: We use the insights from our engagement to identify potential risks to a company's cashflow and increase the quality of both our internal ESG and credit assessments.

Credit ESG sector review: The information from our fossil fuel financing research and engagement is incorporated into credit analyst ESG sector reviews. During these reviews, analysts discuss with portfolio managers the ESG factors and ordinal rankings of their companies' exposures to ESG risks and opportunities that could impact the ability of companies to service their debt comfortably.

Schroders' proprietary tools: The development of our fossil fuel financing scorecard has helped us identify new environmental metrics for our proprietary sustainability tools such as CONTEXT, which is used by both credit and equity investors within Schroders.

Voting approach: As a result of our research and engagement, we have refined our expectations of banks relating to fossil fuel financing and climate change more broadly. This has been reflected in the annual review of our voting policy and recent voting decisions on climate-related shareholder resolutions for banks.

ACTIVE OWNERSHIP

Are auto companies preparing their workforce for a more digital future?

We engaged with a number of autos companies to understand how they are preparing their workforce for rapid electrification and digitalisation.

Catherine Macaulay
Sustainable Investment Analyst

Rodrigo Kohn
Analyst, Pan European Equities

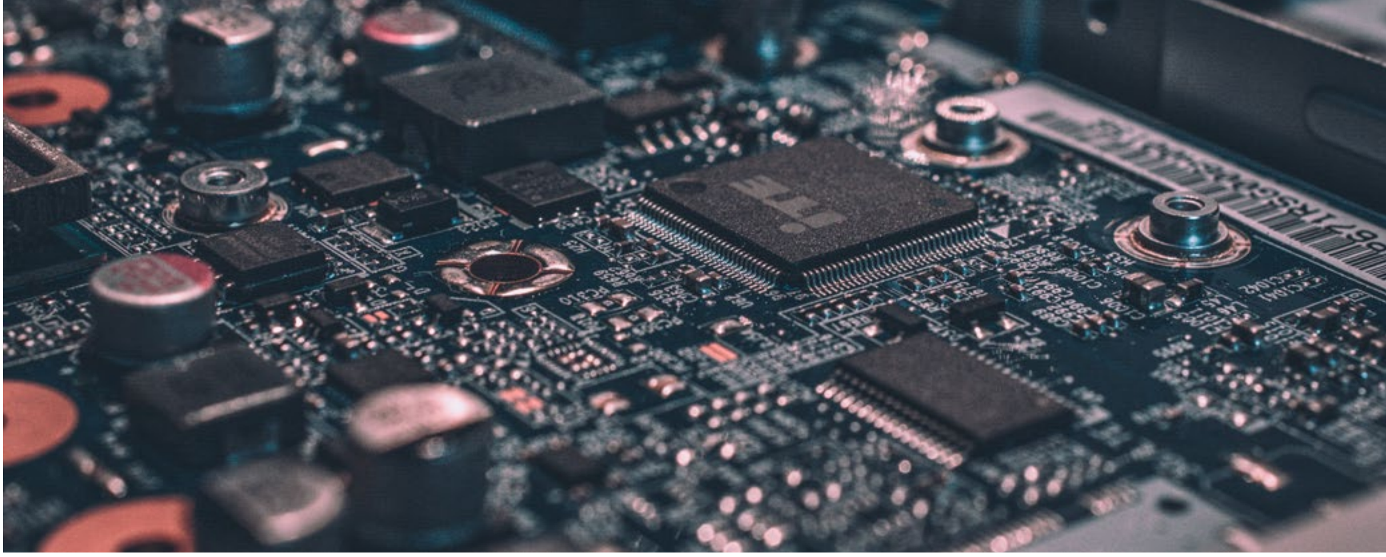
As climate change ambition ramps up across the world, emissions reduction targets in the autos sector will likely be forced to tighten further. Numerous countries – including Norway, France, the UK, Sweden, Ireland and the Netherlands – have already announced internal combustion engine (ICE) vehicle phase-outs between 2025-2040.

Companies must pursue low and zero-carbon alternatives or risk hefty fines. Their ability to meet this challenge depends critically on their ability to innovate and execute.

At the same time, technological advancements continue to transform the industry. Production processes are increasingly automated, autonomous driving technology is growing in sophistication, and consumer expectations around the digital experience of vehicles continue to increase.

The implications of the green and digital transformation on the workforce are profound and will impact on everything from workforce structure to training and hiring practices.

Yet the challenge is complex. Shifting business models will require strong training programmes that enable original engine manufacturers (OEMs) and suppliers to redeploy existing staff into new areas. Autos companies must also now compete with tech companies for IT talent, forcing them to rethink their brand and attempting to appeal to a new type of employee.



We spoke to nine global OEMs and suppliers to assess how they are equipping their workforce to thrive in the coming digital and electric age. Below we highlight five key insights gained from our conversations.

1. **Companies taking a reactive approach to electrification risk finding themselves at a skills disadvantage in the future.** A company's training offering in electrification offers a good proxy for its level of commitment to the electrification agenda. Companies that believe electric vehicle (EV) uptake will be slow, driven by subsidies and emissions regulations, are more oriented toward hybrid vehicle production rather than developing dedicated production lines in EVs. Their training offer reflects this. This may place them at a skills disadvantage in the future as the industry decarbonises further.

2. **As a heavily unionised industry, companies will need to make use of natural retirement to reduce the size of their workforce.** It is estimated that electric vehicles require at least 20-30% less manpower to produce. EV production also requires a different skillset. This effect will be amplified by increasing levels of automation in production processes. At the same time, high levels of unionisation make it difficult for companies to reduce the size of their workforce. Companies can make use of natural retirement and early retirement schemes, but this can only address part of the challenge – all companies must recognise the need to create flexible workforces to be able to redeploy existing employees into new roles.

"Companies can make use of natural retirement and early retirement schemes, but this can only address part of the challenge. All companies recognise the need to create flexible workforces to be able to redeploy existing employees into new roles."

Catherine Macaulay,
Sustainable Investment Analyst

3. **Developing effective training programmes requires sophisticated workforce planning that identifies gaps and potential in existing employees.** Ensuring that the right people are given access to training programmes is crucial to success – as is ensuring that training and recruitment strategies address current and future business needs. Understanding the systems and processes that companies have in place to manage skills demand and identifying appropriate candidates are key pieces of the puzzle.

4. **High-level statistics on training hours can be misleading.** High-level training statistics cover everything from human resource (HR) to compliance training hours. While such training is no doubt important for the day-to-day functioning of a company, it does little to equip employees with the skills needed to thrive in changing environments. It is important to drill down into in-depth training programmes and try to get a sense of the scale of these programmes.

5. **Companies face stiff competition from new sectors and need to be innovative in their approaches to recruitment, particularly in attracting young people and tech talent.** Developing strong apprenticeships, internships and relationships with universities is important for attracting young people. Innovative strategies such as re-branding and revamping working styles are needed to appeal to tech talent. Ensuring overall employee satisfaction is also more important than ever in this highly competitive environment.

Assessing the sophistication of a company's training and recruitment strategy is complex. High level statistics only paint part of the picture, and companies are reticent to divulge too much information given the competitive sensitivity of these topics.

While this makes it difficult to draw direct investment conclusions, insights gained from these conversations can help us to better understand companies' preparedness for the transition. This is applicable to all industries that face transition risk.

Engagement in numbers

ENGAGEMENT BY TIER

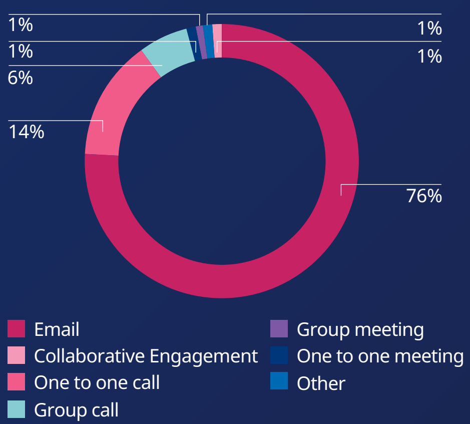
Tier	Scope	Number of engagements
1	In-depth, sustainable investment team-led engagements	79
2	Analyst/fund manager-led engagement	58
3	Collaborative engagement and communicating expectations at scale	345
4	Influence through actively voting on all holdings and conducting company meetings	3212
5	Industry involvement and public policy influence	Reported annually

Regional engagement (tiers 1 – 3)

UK 68%
Europe (ex-UK) 13%
Asia Pacific 9%
North America 7%
Latin America 2%
Middle East and Africa 1%

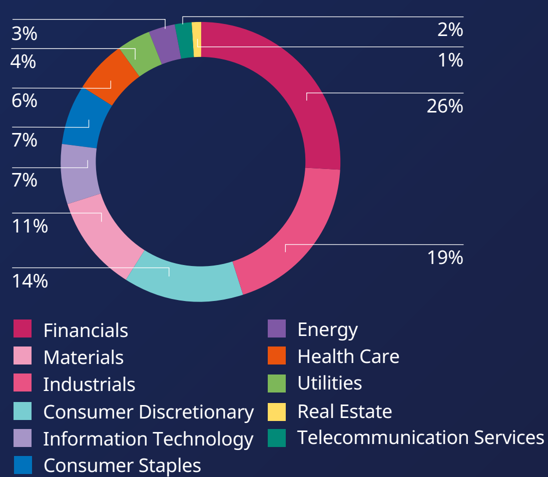
Source: Schroders as at 31 March 2021

Engagement type (tiers 1 – 3)



Source: Schroders as at 31 March 2021

Engagement by sector (tiers 1 – 3)



Source: Schroders as at 31 March 2021

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).

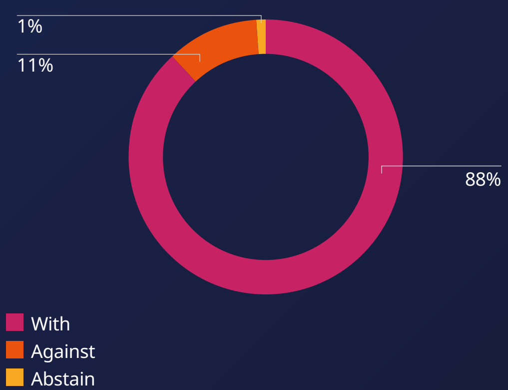
This quarter we voted on 1064 meetings and approximately 96.5% of all resolutions. We voted on 14 ESG-related shareholder resolutions, of which we voted with management on 10. The charts below provide a breakdown of our voting activity from this quarter. Our UK voting decisions are all available on our website.

Votes by Region

Asia Pacific	39%
Europe (ex-UK)	33%
North America	10%
UK	9%
Latin America	5%
Middle East and Africa	4%

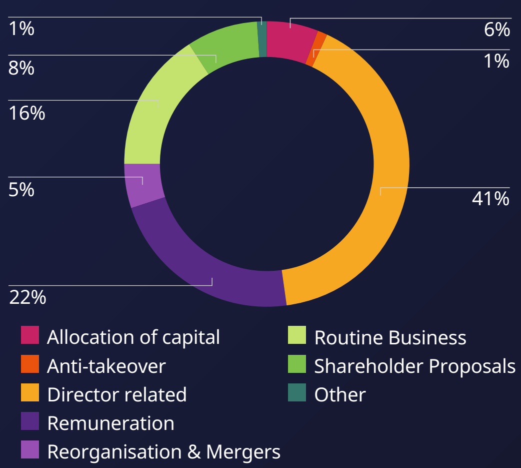
Source: Schroders as at 31 March 2021

Direction of votes this quarter



Source: Schroders as at 31 March 2021

Reasons for votes against this quarter

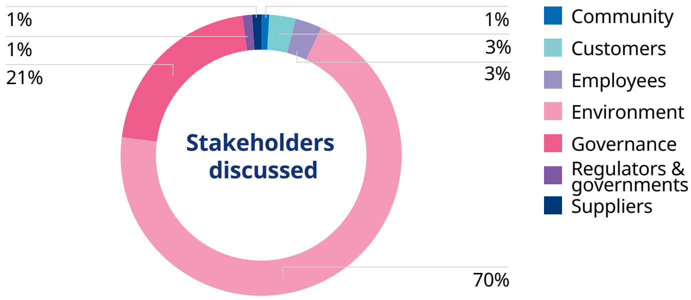


Source: Schroders as at 31 March 2021

Which companies we've engaged with

482 tier 1-3 engagements took place this quarter with the 429 companies listed below. The table 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			
888	✔		
3P Learning			✔
4imprint	✔		
Amazon		✔	✔
AO World	✔		
Aristocrat Leisure			✔
Barratt Developments	✔		
Bayerische Motoren Werke			✔
BCA Marketplace	✔		
Bellway	✔		
Berkeley	✔		
Bovis Homes	✔		
Burberry	✔		
Carnival	✔		
Coats	✔		
Compass	✔		
Countryside Properties	✔		
Dixons Carphone	✔		
Domino's Pizza	✔		
Dunelm	✔		
Euromoney	✔		
Future	✔		
Games Workshop	✔		
GVC	✔		
Hollywood Bowl			✔
Howden Joinery	✔		
Inchcape	✔		
Informa	✔		
Intercontinental Hotels	✔		✔

Company	E	S	G
ITV	✔		
J D Wetherspoon	✔		
JD Sports Fashion	✔		
Kangwon Land			✔
Kingfisher	✔		
LCI Industries			✔
Marks and Spencer	✔		
Mavi Giyim Sanayive ve Ticaret	✔	✔	✔
McCarthy & Stone	✔		
Mitchells and Butlers	✔		
NagaCorp			✔
Next	✔		
Nordic Entertainment			✔
Ocado	✔		
Paddy Power Betfair	✔		
Pearson	✔		
Persimmon	✔		
Pets at Home	✔		
Rank	✔		
Redrow	✔		
RELX	✔		
Restaurant	✔		
Rightmove	✔		
Sodexo			✔
Sports Direct	✔		
Taylor Wimpey	✔		
TI Fluid Systems	✔		
Tui	✔		
Vivo Energy	✔		
Volkswagen		✔	

Source: Schroders, 31 March 2021.
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Company	E	S	G
Watches Of Switzerland	✔		
WH Smith	✔		
Whitbread	✔		
William Hill	✔		
WPP	✔		
Consumer Staples			
AG Barr	✔		
Associated British Foods	✔		
Bakkavor	✔		
British American Tobacco	✔		
Britvic	✔		✔
Carrefour			✔
Coca Cola	✔		
Cranswick	✔		✔
Diageo	✔		
Freedom Nutritional Products			✔
Greencore	✔		
Greggs	✔		✔
Hilton Food	✔		
Imperial Brands	✔		
J Sainsbury	✔		
Kerry		✔	
Kimberly-Clark de Mexico			✔
Koninklijke Ahold Delhaize	✔	✔	
Kraft Heinz Foods			✔
Magnit	✔	✔	✔
Metro			✔
Morrisons	✔		
Premier Foods	✔		
Pz Cussons	✔		
Reckitt Benckiser	✔		
Spar			✔
SSP	✔		
Tate & Lyle	✔		
Tesco	✔	✔	
Thai Beverage			✔
Toly Bread			✔
Unilever	✔		
Walgreens Boots Alliance			✔
Energy			
BP	✔		

Company	E	S	G
Cairn Energy	✔		
Concho Resources			✔
Energean Oil & Gas	✔		
Hunting	✔		
Parsley Energy			✔
Petrofac	✔		
Premier Oil	✔		
Pressure Technologies			✔
Royal Dutch Shell	✔		✔
Tullow Oil	✔		
Wintershall Dea	✔		
Wood	✔		
Yanzhou Coal Mining			✔
Financials			
3i	✔		
Admiral	✔		
AJ BELL	✔		
alstria office REIT	✔		
Amlin	✔		
Ashmore	✔		
ASR Nederland			✔
Assura	✔		
Aviva	✔		
Banco Itau	✔		✔
Banco Santander	✔		
Bank of America	✔		
Bank of Georgia	✔		
Bank Rakyat Indonesia			✔
Barclays	✔		✔
BBGI	✔		
Beazley	✔		
Big Yellow	✔		
Brewin Dolphin	✔		✔
British Land	✔		
Canadian Imperial Bank of Commerce	✔		
Capital & Counties Properties	✔		
Cerved Information Solutions			✔
Close Brothers	✔		
CLS	✔		
CMC Markets	✔		
Country Garden	✔		

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Company	E	S	G
Country Garden Services		✔	
Coventry BS	✔		
Credit Suisse	✔		✔
CYBG	✔		
DBS Bank	✔		
Derwent London	✔		
Direct Line Insurance	✔		
DNB Nor	✔		
Equity Lifestyle Properties	✔		
First Abu Dhabi Bank			✔
Fraser Centrepoint Trust			✔
Goldman Sachs	✔		
Grainger	✔		
Great Portland Estates	✔		
Halyk Savings Bank of Kazakhstan		✔	✔
Hammerson	✔		
Hargreaves Lansdown	✔		
Helical Bar			✔
Hiscox	✔		
HSBC	✔		
Huatai Securities			✔
Huntington Bancshares	✔		
IG	✔		
IntegraFin	✔		
Intermediate Capital	✔		
Intesa Sanpaolo	✔		
Investec	✔		
Invitation Homes	✔		
JP Morgan Chase	✔		
Jupiter Fund Management	✔		
Lancashire	✔		
Land Securities	✔		
Law Debenture	✔		
Legal & General	✔		
Lloyds Banking	✔	✔	
Londonmetric Property	✔		
LSE	✔		
M&G	✔		
Man	✔		
Mitsubishi UFJ Financial	✔		
Mitsui Fudosan	✔		

Company	E	S	G
Mizuho Financial	✔		
NASDAQ			✔
National Australia Bank	✔		
NatWest			✔
Network International	✔		✔
NewRiver Retail	✔		
OneSavings Bank	✔		
Oversea-Chinese Banking	✔		
Paragon Group of Companies	✔		
Phoenix	✔		
Plus500	✔		
Provident Financial	✔		
Prudential	✔		
Quilter	✔		
Rathbone Brothers	✔		
Royal & Sun Alliance Insurance	✔		
Sabre Insurance	✔		
Safestore	✔		
Sanne	✔		
Savills	✔		
Segro	✔		
Shaftesbury	✔		
St James Place Capital	✔		
St Mowdens Properties	✔		
Standard Chartered	✔		✔
Standard Life	✔		
Sun Communities	✔		
Syncona	✔		
TBC Bank	✔		
Terreno Realty	✔		
Toronto Dominion Bank	✔	✔	
TP ICAP	✔		✔
Tritax Big Box REIT	✔		
Unicredit	✔	✔	
Union Bank of Switzerland (UBS)	✔		
Unite	✔		
United Overseas Bank	✔		
VGP	✔		
Workspace	✔		
Yuzhou Properties	✔	✔	
Zhenro Properties	✔		✔

Source: Schroders, 31 March 2021.
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Company	E	S	G
Health Care			
AstraZeneca	✔		
Aust Pharmaceut			✔
Bayer	✔	✔	✔
Becton, Dickinson & Co			✔
ConvaTec	✔		
Dechra Pharma	✔		✔
Gedeon Richter			✔
Genus	✔		
Gerresheimer			✔
GlaxoSmithKline	✔	✔	
Hikma Pharmaceuticals	✔		
Indivior	✔		
Mediclinic International	✔		
Merck	✔	✔	
Novartis		✔	✔
Novo Nordisk	✔	✔	
Oxford BioMedica	✔		
PureTech Health	✔		
Siemens Healthineers			✔
Smith & Nephew	✔		
Spire Healthcare			✔
UCB			✔
Udg Healthcare	✔		
United Drug			✔
Vectura	✔		
Industrials			
Acuity Brands			✔
Aggreko	✔		
Ashtead	✔		
Avon Rubber	✔		✔
B&M European Value Retail	✔		
Babcock	✔		
BAe Systems	✔		✔
Balfour Beatty	✔		
BBA	✔		
Biffa	✔		✔
Bodycote	✔		
Bunzl	✔		
Calisen	✔		
Capita	✔		✔

Company	E	S	G
Chemring	✔		
Cia de Distribn Integral Logista			✔
Clarkson	✔		
CNH Industrial			✔
Cognex	✔	✔	
Cohort			✔
DCC	✔		
Diploma	✔		
EasyJet	✔		
Experian	✔		
Fastenal			✔
First	✔		
G4S	✔		
Galliford Try	✔		
GEA			✔
Go-Ahead	✔		
Grafton	✔		
Hays	✔	✔	
Hazama Ando			✔
Homeserve	✔		
IMI	✔		
International Consolidated Airlines	✔		
Intertek	✔		
Ip	✔		
ITM Power	✔		
IWG	✔		
James Fisher & Sons	✔		
JGC			✔
John Laing	✔		
Kanamoto			✔
Kingspan			✔
Meggitt	✔		
Melrose Industries	✔		✔
Michael Page	✔		
Mitie			✔
Morgan Advanced Materials	✔		
Morgan Sindall	✔		
National Express	✔		
Nexans			✔
Osram			✔
PARK24			✔

Source: Schroders, 31 March 2021.
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Company	E	S	G
Paypoint	✔		
Polypipe	✔		✔
Qinetiq	✔		
Recruit	✔	✔	
Rentokil Initial	✔		
Rolls-Royce	✔		
Rotork	✔		
Royal Mail	✔	✔	
Senior	✔		
Serco	✔		
Sig	✔		
SMC			✔
Smiths	✔		
Spirax-Sarco Engineering	✔		
Stagecoach	✔		
Trainline	✔		
Travis Perkins	✔		
Ultra Electronics	✔		
Vertiv Intermediate	✔	✔	✔
Vestas Wind Systems		✔	
Vesuvius	✔		
Weir	✔		
Wizz Air	✔		
XP Power	✔		
Information Technology			
Airtel Africa	✔		
AMS			✔
Auto Trader	✔		
Avast	✔		
Aveva	✔		
Chaozhou Three-circle			✔
Computacenter	✔		
DiscoverIE			✔
Dolby Laboratories			✔
Electrocomponents	✔		
Equiniti	✔		
Equinix			✔
FDM	✔		
Globant			✔
Gooch & Housego			✔
Halma	✔		

Company	E	S	G
Intuit Inc			✔
Just Eat	✔		
Kainos	✔		
Micro Focus	✔		
MoneySupermnaket	✔		
Oxford Instruments	✔		
Playtech	✔		
PTC			✔
Renishaw	✔		
Sage	✔		
Softcat	✔		
Spectris	✔		
Spirent	✔		
Tencent		✔	
Teradata			✔
TT Electronics			✔
Ubisoft Entertain		✔	
Visa			✔
Materials			
Anglo American	✔		
Antofagasta	✔		
Aurubis			✔
BHP Billiton	✔		
Card Factory	✔		
Centamin	✔		
Crest Nicholson	✔		
CRH P	✔		
Croda International	✔		
DS Smith	✔		
Elementis	✔		
Ems-Chemie	✔		
Essentra	✔		
Evraz	✔		
Ferrexpo	✔		
Fresnillo	✔		
Glencore	✔		
Hengyi Petrochemical			✔
Hill & Smith	✔		
Hochschild Mining	✔		
Holcim Philippines			✔
Ibstock	✔		

Source: Schroders, 31 March 2021.
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Company	E	S	G
Intelligent Packaging	✔		
Johnson Matthey	✔		
JSR			✔
Kaz Minerals	✔		
Klabin	✔		
Lenzing			✔
LG Chemical	✔		
Marshalls	✔		
Mitsubishi Chemical	✔		
Mondi	✔		
Petropavlovsk	✔		
Polymetal	✔		
RHI Magnesita	✔		
Rio Tinto	✔	✔	✔
Smurfit Kappa	✔		
Sociedad Quimica y Minera			✔
South32	✔	✔	
Synthomer	✔		
ThyssenKrupp			✔
Toray Industries			✔
Vale	✔	✔	✔
Victrex	✔		
Zhaojin Mining Industry			✔
Zijin Mining			✔
Real Estate			
Columbia Property Trust			✔
Frasers Logistics and Industrial Trust			✔
Gcp Student Living	✔		
Sirius Real Estate	✔		
Telecommunication Services			
Ascential	✔		
BT	✔		
Cineworld	✔		
Helios Towers	✔		
Talktalk	✔	✔	
Vodafone	✔		
Utilities			
Acea	✔		
Centrica	✔		
Contourglobal	✔		
Drax	✔		

Company	E	S	G
EDP			✔
Energias do Brasil			✔
National Grid	✔		✔
Northumbrian Water	✔		
Orsted	✔		
Pennon	✔		
Scottish and Southern Energy	✔		
Severn Trent	✔		
Telecom plus	✔		
Terna	✔		✔
United Utilities	✔		

Key

E – Environment
S – Social
G – Governance

Source: Schroders, 31 March 2021.
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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.

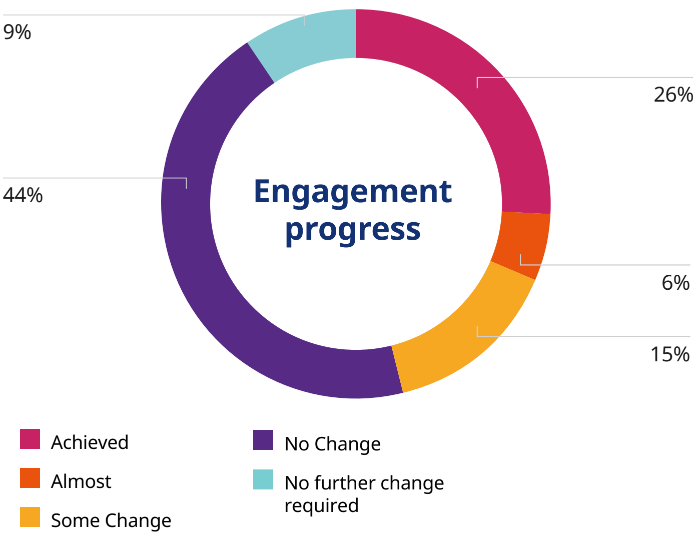
There are five possible results: 'Achieved', 'Almost', 'Some Change', No Change' and 'No Further Change Required' (typically because we have sold out of the position).

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 Q1 2020, Schroders undertook 54 requests for change classified as tier 1 engagements. Upon reviewing these engagements in Q4 2020, the pie chart below shows a breakdown of the progress we have made.

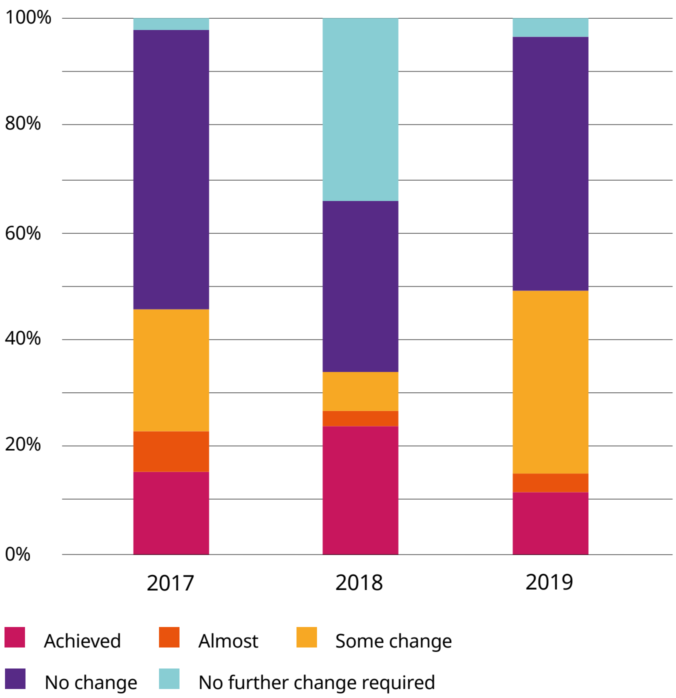
The bar chart below shows the effectiveness of our requests for change over a three-year period. Our experience shows that at least two years of dialogue is typically required before our requests begin to materialise into measurable change within a company. It is for this reason that the two most recent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

ENGAGEMENT PROGRESS FROM Q1 2020



Source:Schroders as at 31 March 2021

EFFECTIVENESS OF REQUESTS FOR CHANGE – 3 YEAR PERIOD



Source: Schroders as at 31 December 2020

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