CLIMATE TRANSPARENCY REPORT

2019

Schroders

About the Climate-related Disclosure Indicators

Climate has been identified as a top priority for PRI signatories, with over 70% of asset owners reporting this as the most important long-term trend they are acting on.

The FSB Task Force's guidance on climate-related financial disclosure aim to create a single framework for disclosure on assessment and management of climate-related risk. The recommendations, supported by investors representing US$22 trillion, identify four main disclosures, Governance, Strategy, Risk Management, Metrics and Targets, and include specific guidance for asset owners and managers.

As a result, the PRI introduced climate-related disclosure indicators that can be used to align with the TCFD recommendations in the 2019 PRI Reporting Framework.

About this report

This report is an export of only the climate-related indicators from the 2019 Reporting Framework response.The full Public Transparency Report is available here(https://reporting.unpri.org/surveys/PRI-reporting-framework-2019/-E0F89229-76DA-4E3C-A437-0E036510AE5A/00000000-0000-0000-0000-000000000000/doc/2/-%7C%7C*complete*%7C*public*/Merged/).It shows the responses to all the completed climate indicators, even those you chose to keep private. It is designed for your internal review or – if you wish - to share with your stakeholders.

The PRI will not publish this report on its website if you have designated your 2019 climate reporting as "private". Otherwise, you will be able to access the Climate Transparency Report of your organisation and that of other signatories on the PRI website and on the Data Portal.

To easily locate information, there is a **Recommendation index** which summarises the indicators that signatories complete and disclose.The report presents information exactly as it was reported as per signatory preference. Where an indicator offers a response option that is multiple-choice, all options that were available to the signatory are presented in this report.

TCFD Recommendations Index

Strategy and Governance - CC			TCFD Recommendation			
Indicator	Reported	Disclosure	Governance	Strategy	Risk Management	Metrics & Targets
SG 01.1	✓	Public				
SG 01.2	✓	Public				
SG 01.3	✓	Public				
SG 01.4	✓	Public				
SG 01.5	✓	Public				
SG 01.6 CC	✓	Public				
SG 01.7 CC	✓	Public				
SG 01.8 CC	✓	Public				
SG 01.9 CC	✓	Public				
SG 01.10 CC	✓	Public				
SG 01.11 CC	-	Public				
SG 01.12 CC	✓	Public				
SG 02.2	✓	Public				
SG 07.5 CC	✓	Public				
SG 07.6 CC	✓	Public				
SG 07.7 CC	✓	Public				
SG 07.8 CC	-	Public				
SG 13.1	✓	Public				
SG 13.2	✓	Public				
SG 13.4 CC	✓	Public				
SG 13.5 CC	✓	Public				
SG 13.6 CC	✓	Public				
SG 13.7 CC	✓	Public				
SG 13.8 CC	✓	Public				
SG 14.1	✓	Public				
SG 14.2	✓	Public				
SG 14.3	✓	Public				
SG 14.4	✓	Public				
SG 14.5	✓	Public				
SG 14.6 CC	✓	Public				
SG 14.7 CC	-	Public				
SG 14.8 CC	✓	Public				
SG 14.9 CC	✓	Public				
SG 15.1	✓	Public				
SG 15.2	✓	Public				
SG 15.3	✓	Public				

Principles for Responsible Investment

Symbol	Status
✓	The signatory has completed this sub-indicator
-	The signatory did not complete this sub-indicator.
	This indicator is relevant to the named TCFD recommendation
Within the first column "Indicator", indicators marked in blue are mandatory to complete. Indicators marked in grey are voluntary to complete.	

ORGANISATIONAL OVERVIEW

This section provides an overview of your organisation. These characteristics are used to define your peer groups.

MAIN CHARACTERISTICS	
Name	Schroders
Signatory Category	Fund Management - Majority
Signatory Type	Investment Manager
Size	US$ > 50 billion AUM
Main Asset Class	Multi-Asset
Signed PRI Initiative	2007
Region	Europe
Country	United Kingdom
Disclosure of Voluntary Indicators	64% from 38 Voluntary indicators

Schroders

Reported Information

Public version

Strategy and Governance

PRI disclaimer

This document presents information reported directly by signatories. This information has not been audited by the PRI Secretariat or any other party acting on their behalf. While this information is believed to be reliable, no representations or warranties are made as to the accuracy of the information presented, and no responsibility or liability can be accepted for any error or omission.

Investment policy

SG 01	Mandatory	Public	Core Assessed	General

New selection options have been added to this indicator. Please review your prefilled responses carefully.

SG 01.1	Indicate if you have an investment policy that covers your responsible investment approach.

◉ Yes

SG 01.2	Indicate the components/types and coverage of your policy.

Select all that apply

Policy components/types	Coverage by AUM
☑ Policy setting out your overall approach ☑ Formalised guidelines on environmental factors ☑ Formalised guidelines on social factors ☑ Formalised guidelines on corporate governance factors ☐ Fiduciary (or equivalent) duties ☑ Asset class-specific RI guidelines ☐ Sector specific RI guidelines ☑ Screening / exclusions policy ☑ Engagement policy ☑ (Proxy) voting policy ☑ Other, specify (1) Conflicts of interest ☐ Other, specify(2)	◉ Applicable policies cover all AUM ○ Applicable policies cover a majority of AUM ○ Applicable policies cover a minority of AUM

SG 01.3	Indicate if the investment policy covers any of the following

☑ Your organisation's definition of ESG and/or responsible investment and it's relation to investments

☑ Your investment objectives that take ESG factors/real economy influence into account

☑ Time horizon of your investment

☐ Governance structure of organisational ESG responsibilities

☑ ESG incorporation approaches

☑ Active ownership approaches

☑ Reporting

☑ Climate change

☐ Understanding and incorporating client / beneficiary sustainability preferences

☐ Other RI considerations, specify (1)

☐ Other RI considerations, specify (2)

SG 01.4	Describe your organisation's investment principles and overall investment strategy, interpretation of fiduciary (or equivalent) duties,and how they consider ESG factors and real economy impact.

At Schroders, responsible investment principles drive our investment decisions and the way we manage funds. We see ourselves as long-term stewards of our clients' capital and this philosophy naturally leads us to focus on the long-term prospects for companies in which we invest. In our view, successful investment is intrinsically linked to identifying, understanding and incorporating the effects of environmental, social and governance.

We firmly believe analysing a company's exposure to, and management of, ESG factors, in addition to traditional financial analysis, will enhance our understanding of a company's fair value and ability to deliver sustainable returns over the long-term.

Our integration approach spans the breadth of the ownership lifecycle, from identifying trends and analysing companies through ownership, engagement, voting and reporting.

At Schroders, we believe there are four principal dimensions to sustainable investing:

1. As responsible owners seeking to manage, protect and enhance the value of investments on behalf of our clients through active engagement and voting;
2. As an integral element of understanding companies' long term competitive strengths;
3. To help identify structural shifts that will drive growth in new markets, technologies and assets; and
4. To provide investment solutions aligned with our clients' core values and beliefs.

SG 01.5	Provide a brief description of the key elements, any variations or exceptions to your investment policy that covers your responsible investment approach. [Optional]

Schroders' ESG policy outlines our principles and practices around sustainability, and reflects our commitment to responsible investment. It includes our ESG definition, how we integrate ESG considerations as part of the overall investment process across listed assets (equities, credit, sovereigns, convertible bonds, insurance-linked securities), our engagement process and rationale, our voting policy and our core corporate governance principles when determining how to vote.

We have a separate Real Estate Sustainability Policy and Responsible Investment Policy for Private Equity.

We comply with the requirements of all regional stewardship codes.

○ No

	I confirm I have read and understood the Accountability tab for SG 01

I confirm I have read and understood the Accountability tab for SG 01

SG 01 CC	Voluntary	Public	Descriptive	General

SG 01.6 CC	Indicate the climate-related risks and opportunities that have been identified and factored into the investment strategies and products, within the organisation's investment time horizon.

At Schroders, we have invested heavily in developing tools to help our analysts, fund managers and clients better understand the threat climate change poses to investment portfolios. No single measure can capture the breadth of climate impacts, but combined they provide a rounded view of the challenge ahead. Our analysis of the investment implications of these impacts conclude that up to 20% of the value of global listed companies could be exposed to climate risks.

Recognising the importance of linking climate challenges to investment risks, opportunities and decisions, we have developed tools to better measure and manage the range of investment challenges and opportunities climate change represents.

Our framework focuses on business and investment impacts, starting with "*what will need to change to reach a 2° target?*" We then look at how those changes will be achieved, what effect those changes would have on companies' competitiveness, how would changes in competitiveness affect companies' values and how risks to company values would impact portfolio valuations. We have deliberately designed our analysis to capture the impacts of likely changes as logically and fully as possible, rather than starting with the data or metrics that are most commonly used by investors. Our analysis comprises several elements:

- The**physical damage** caused by rising temperatures and increasing weather volatility are unavoidable. We have examined the costs companies would bear to insure against this
- For**policy risk**, our Carbon Value at Risk model examines the implications of carbon prices rising to $100/t, the level needed to incentivise decarbonisation in line with a 2° transition, on portfolio holdings
- To gauge the impacts of a climate transition on**growth in different industries**, we have developed analysis assessing the faster or slower growth each industry would experience and the valuation impacts of that increase or decrease on the value of individual companies
- To gauge**energy infrastructure risks**, we have assessed the impact on the value of the reserves fossil fuel producers own but would be unable to develop if the global economy transitions toward a 2 degree pathway.

Across Schroders, we manage a wide range of funds with different strategies and time horizons. As a result, we have designed tools suitable for a range of situations. In particular by explicitly separating measures of the impact of climate risks to investments from monitoring of the timing of those impacts, which we assess through the Climate Progress Dashboard (**https://www.schroders.com/en/us/institutional/insights/climate-progress-dashboard/**), the tools we have developed can be adapted to strategies with different time horizons.

SG 01.7 CC	Indicate whether the organisation has assessed the likelihood and impact of these climate risks?

◉ Yes

SG 01.8 CC	Indicate the associated timescales linked to these risks and opportunities.

Climate risks broadly fall into two categories:

First, those associated with the physical damage changing weather patterns and other physical changes pose to assets, which we quantify using the physical risk analysis described in SG 01.6 CC. Insofar as those impacts reflect rising temperatures, which in turn reflect greenhouse gas emissions in previous decades, we consider those risks very likely to continue rising over coming decades, as they have over most of the last century. How those global risks impact individual assets is uncertain, but the scale of global risk is very likely to continue rising going forward, from current levels. We therefore consider physical risk to be an immediate and growing threat.

Second, those associated with the disruption of a transition to a low carbon economy, which shift has begun but has much further to run. The speed with which all of those trends play out will be heavily influenced by global political changes. We believe the likelihood that those policy changes will occur in the next 5-10 years are rising, notwithstanding the risks inherent in forecasting political measures. Even without policy measures, some of effects of transition are already beginning to emerge. We have examined - and make available to fund managers and analysts - three aspects of transition risk:

5. **Carbon Value at Risk**: This reflects the impacts of rising carbon prices. Those prices have already more-than-tripled in Europe over the last 12-18 months and represent an immediate risk in many industries. However, we believe those prices would need to rise to close to $100/t globally to disincentivise GHG emissions on the necessary scale, which is likely to prove a medium term risk (5+ years).
6. **Faster or slower growth**: Reallocation of capital across industries and changes in demand for products will create value in some markets and destroy it in others. We are already seeing rapid growth in a number of clean technology areas such as renewable energy and electric vehicles, reflecting fast-improving economics in those areas. However, changes on the scale needed to meet long-term climate goals will likely prove a near-medium term risk (5+ years).
7. **Energy infrastructure risks**: Sharp reductions in fossil fuel use will be needed to meet long term emissions targets and threatens producers in those markets. We believe change, on the scale needed, will prove a medium term (5+ years) risks.

In all of these areas, we do not focus on the timeframes over which risks are likely to impact companies and assets we invest in. In practice, the outlook is uncertain and change could happen much faster or slower than we foresee and as investors, the value of our investments could change very quickly as conviction in the likelihood of those changes rises, making the investment risks much shorter horizon than the policy, behaviour or technology changes they relate to. As a result, we consider it important to prepare for those risks today, rather than to emphasise their timing.

○ No

SG 01.9 CC	Indicate whether the organisation publicly supports the TCFD?

◉ Yes

○ No

SG 01.10 CC	Indicate whether there is an organisation-wide strategy in place to identify and manage material climate-related risks and opportunities.

◉ Yes

	Describe

Our assessment of climate related risks is grounded in our understanding of (i) the changes that will be required to mitigate the impacts of climate change (carbon pricing, reduced fossil fuel use etc), (ii) analysis of the impact of those changes on corporate profitability and security valuations and (iii) the likely speed and timing of action to implement those changes. The sustainability team works with investment desks across Schroders to help ensure the investment risks are identified and incorporated into investment decisions. We firmly believe a thoughtful process grounded in understanding of performance drivers within a comprehensive investment framework is vital to effective climate risk management, rather than reliance on blunt rules or exclusions.

We engage with a wide range of external stakeholders and experts to ensure we have identified the key changes likely to be implied by climate action and the scale of those changes. For example, we have developed networks with academics (eg Imperial College), NGOs (eg Carbon Tracker), industry (eg IPIECA) and others to help ensure our understanding of the changes ahead is as complete as possible.

We have develop the Climate Progress Dashboard to monitor the speed and scale of change in the key areas we identify. That dashboard is updated quarterly and the results are published via our website.

We have developed several discrete analyses to translate those changes into investment conclusions (Carbon Value at Risk, Physical Risk, Fossil Fuel risk, Growth impacts). We collaborate with investment teams across Schroders to ensure the results of that modelling are understood and applied to decisions where relevant.

Our focus is on ensuring investors recognise and evaluate those risks in the investment decisions they make, rather than on excluding those risks entirely. In many cases, that process prompts indepth discussions on individual stocks to better understand company specific risks and opportunities beyond those which can be quantified systematically (for instance leading to purchases of a nuclear utility and low carbon aluminium producer). In some cases, we conclude that management is taking robust steps to mitigate the risks they face, or that valuations reflect those risks. In many cases, we engage with management teams to push for more transparency or changes in strategy to address risks we feel remain.

○ No

SG 1.12 CC	Indicate the documents and/or communications the organisation uses to publish TCFD disclosures.

☑ Public PRI Climate Transparency Report

☑ Annual financial filings

☑ Regular client reporting

☐ Member communications

☐ Other

SG 02	Mandatory	Public	Core Assessed	PRI 6

New selection options have been added to this indicator. Please review your prefilled responses carefully.

SG 02.1	Indicate which of your investment policy documents (if any) are publicly available. Provide a URL and an attachment of the document.

☑ Policy setting out your overall approach

	URL/Attachment

☑ URL

	URL

{hyperlink:http://www.schroders.com/en/sysglobalassets/global-assets/english/campaign/sustainability/integrity-documents/schroders-esg-policy.pdf}

☐ Attachment (will be made public)

☑ Formalised guidelines on environmental factors

	URL/Attachment

☑ URL

	URL

{hyperlink:http://www.schroders.com/en/sysglobalassets/global-assets/english/campaign/sustainability/integrity-documents/schroders-esg-policy.pdf}

☐ Attachment (will be made public)

☑ Formalised guidelines on social factors

	URL/Attachment

☑ URL

	URL

{hyperlink:http://www.schroders.com/en/sysglobalassets/global-assets/english/campaign/sustainability/integrity-documents/schroders-esg-policy.pdf}

☐ Attachment (will be made public)

☑ Formalised guidelines on corporate governance factors

	URL/Attachment

☑ URL

	URL

{hyperlink:http://www.schroders.com/en/sysglobalassets/global-assets/english/campaign/sustainability/integrity-documents/schroders-esg-policy.pdf}

☐ Attachment (will be made public)

☑ Asset class-specific RI guidelines

	URL/Attachment

☑ URL

	URL

{hyperlink:http://www.schroders.com/en/sysglobalassets/global-assets/english/campaign/sustainability/integrity-documents/schroders-esg-policy.pdf}

☐ Attachment (will be made public)

☑ Screening / exclusions policy

	URL/Attachment

☑ URL

	URL

{hyperlink:http://www.schroders.com/en/sysglobalassets/global-assets/english/campaign/sustainability/integrity-documents/schroders-esg-policy.pdf}

☐ Attachment (will be made public)

☑ Engagement policy

	URL/Attachment

☑ URL

	URL

{hyperlink:http://www.schroders.com/en/sysglobalassets/global-assets/english/campaign/sustainability/integrity-documents/schroders-esg-policy.pdf}

☐ Attachment (will be made public)

☑ (Proxy) voting policy

	URL/Attachment

☑ URL

	URL

{hyperlink:http://www.schroders.com/en/sysglobalassets/global-assets/english/campaign/sustainability/integrity-documents/schroders-esg-policy.pdf}

☐ Attachment (will be made public)

☑ Other, specify (1)

	Other, specify (1) description

Conflicts of interest

	URL/Attachment

☑ URL

	URL

{hyperlink:http://www.schroders.com/en/sysglobalassets/global-assets/english/campaign/sustainability/integrity-documents/schroders-esg-policy.pdf}

☐ Attachment (will be made public)

☐ We do not publicly disclose our investment policy documents

SG 02.2	Indicate if any of your investment policy components are publicly available. Provide URL and an attachment of the document.

☑ Your organisation's definition of ESG and/or responsible investment and it's relation to investments

	URL/Attachment

☑ URL

	URL

{hyperlink:http://www.schroders.com/en/sysglobalassets/global-assets/english/campaign/sustainability/integrity-documents/schroders-esg-policy.pdf}

☐ Attachment

☑ Your investment objectives that take ESG factors/real economy influence into account

	URL/Attachment

☑ URL

	URL

{hyperlink:http://www.schroders.com/en/sysglobalassets/global-assets/english/campaign/sustainability/integrity-documents/schroders-esg-policy.pdf}

☐ Attachment

☑ Time horizon of your investment

	URL/Attachment

☑ URL

	URL

{hyperlink:http://www.schroders.com/en/sysglobalassets/global-assets/english/campaign/sustainability/integrity-documents/schroders-esg-policy.pdf}

☐ Attachment

☑ ESG incorporation approaches

	URL/Attachment

☑ URL

	URL

{hyperlink:http://www.schroders.com/en/sysglobalassets/global-assets/english/campaign/sustainability/integrity-documents/schroders-esg-policy.pdf}

☐ Attachment

☑ Active ownership approaches

	URL/Attachment

☑ URL

	URL

{hyperlink:http://www.schroders.com/en/sysglobalassets/global-assets/english/campaign/sustainability/integrity-documents/schroders-esg-policy.pdf}

☐ Attachment

☑ Reporting

	URL/Attachment

☑ URL

	URL

{hyperlink:http://www.schroders.com/en/sysglobalassets/global-assets/english/campaign/sustainability/integrity-documents/schroders-esg-policy.pdf}

☐ Attachment

☑ Climate change

	URL/Attachment

☑ URL

	URL

{hyperlink:http://www.schroders.com/en/sysglobalassets/global-assets/english/campaign/sustainability/integrity-documents/schroders-esg-policy.pdf}

☐ Attachment

☐ We do not publicly disclose any investment policy components

Governance and human resources

SG 07 CC	Voluntary	Public	Descriptive	General

SG 07.5 CC	Indicate the roles in the organisation that have oversight, accountability and/or management responsibilities for climate-related issues.

	Board members or trustees

☑ Oversight/accountability for climate-related issues

☐ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

	Chief Executive Officer (CEO), Chief Investment Officer (CIO), Chief Risk Officer (CRO), Investment Committee

☑ Oversight/accountability for climate-related issues

☐ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

	Other Chief-level staff or head of department

☐ Oversight/accountability for climate-related issues

☐ Assessment and management of climate-related issues

☑ No responsibility for climate-related issues

	Portfolio managers

☐ Oversight/accountability for climate-related issues

☑ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

	Investment analysts

☐ Oversight/accountability for climate-related issues

☑ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

	Dedicated responsible investment staff

☑ Oversight/accountability for climate-related issues

☑ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

	External managers or service providers

☐ Oversight/accountability for climate-related issues

☑ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

SG 07.6 CC	For board level roles for which have climate-related issues oversight/accountability or implementation responsibilities, indicate how these responsibilities are executed.

As a plc and an asset manager, our board has oversight for climate related issues on a number of fronts.

- Our own environmental footprint. The strategy is approved by the board, and implemented by our infrastructure division. Most recently our Chair approved a commitment to joining the RE 100, a commitment to using 100% renewable energy by 2025. Almost 70% of our electricity is currently from renewable sources.
- The board plays a critical role in ensuring investment desks and other areas of the firm are supported to examine issues like climate change and to ensure mechanisms are in place to do so, which they execute through their commitment of resources to the sustainable investment team and regular review of the firm's capabilities
- The board has approved Schroders' Strategic Capability strategy, and Sustainability's inclusion in this. The specific plan includes ensuring that more of our investment processes across asset classes are integrating ESG in the best possible way, and that we are developing innovative products to meet sustainability challenges. There is a three-year plan around this, the implementation of which is monitored by the GMC.
- Our Chief Executive (who is a board member) has supported system wide interventions such as early support for the TCFD recommendations. We are committed to aligning the business to those goals, which

we recognise will be an ongoing process of improvement. Our policy activity is focused of building the right ecosystem for sustainable investment to become mainstream.

- Our Chief Executive has also joined the FCA initiative on climate risk.

SG 07.7 CC	For the management-level roles that assess and manage climate-related issues, provide further information on the structure and process involved.

The day-to-day implementation is delegated by the board to the Group Management Committee (GMC) and implementation takes place in a number of ways:

- Our group impact. Ongoing monitoring is delegated to the Corporate Responsibility Committee, chaired by a Group Management Committee (GMC) member.
- Our Global Head of Equities, also a GMC member, is focused on ensuring effective ESG integration and the development of innovative new products, especially in the area of long term investing. The Sustainable Investment team is tasked with building tools that enable our investors to incorporate sustainability issues into all of their investment decisions. Climate change is a major part of our activity in this area. Our publications indicate the quality of what we have done in this area (see**http://www.schroders.com/en/lu/professional-investor/featured/climate-change-dashboard/**). The quality and usefulness of these are evaluated as part of our annual review process.
- The performance of Schroder ISF Global Climate Change Equity and Schroder ISF QEP ESG ex Fossil Fuels is subject to the same controls as all of our investment processes. A number of individuals are also assessed on their ability to grow assets into those funds.
- We have specific targets around Thought Leadership and client education, which includes the expectation that Climate Change is a major pillar of this. Outputs are monitored for quality and usefulness and feed into incentives for the team.

SG 07.8 CC	Explain how the organisation engages external investment managers on the TCFD recommendations and its implementation.

☐ Incorporation of TCFD in Annual Report

☐ Incorporation of TCFD in regular client reporting

☐ Request that investment managers complete PRI Climate indicators

☐ Request responses to TCFD Fund Manager questions in the PRI Asset Owner guide

ESG issues in asset allocation

SG 13	Mandatory	Public	Descriptive	PRI 1

SG 13.1	Indicate whether the organisation undertakes scenario analysis and/or modelling and provide a description of the scenario analysis (by asset class, sector, strategic asset allocation, etc.).

☑ Yes, to assess future ESG factors

	Describe

SustainEx is a proprietary model which measures the net positive or negative impact companies have on the environment and society. It quantifies the extent to which companies are in credit or deficit with the societies to which they belong, and the risks they face if costs are crystallised.

☑ Yes, to assess future climate-related risks and opportunities

	Describe

Climate Progress Dashboard
Carbon Value at Risk
Physical climate risk model
Climate Change Growth model
Fossil Fuel risk model

☐ No, not to assess future ESG/climate-related issues

SG 13.2	Indicate if your organisation considers ESG issues in strategic asset allocation and/or allocation of assets between sectors or geographic markets.

	We do the following

☐ Allocation between asset classes

☑ Determining fixed income duration

☑ Allocation of assets between geographic markets

☑ Sector weightings

☐ Other, specify

☐ We do not consider ESG issues in strategic asset allocation

SG 13.3	Additional information. [OPTIONAL]

The majority of our assets are single asset class. So the most effective way on ensuring ESG is integrated is through stock, regional and sector selection.

Investment desks incorporate ESG considerations when determining allocations amongst different geographies and sectors. For example our Asian team has historically been underweight Korea due to governance concerns.

Financial analysts across asset classes operate on sector lines. They have to build up a picture of the long term outlook for their sectors which is based on how environmental and social change will impact the operating backdrop. Such factors feed into their regular sector reviews and recommendations which influence allocations at a portfolio level.

The fixed income team will adjust portfolio duration according to their view of ESG risks and when they might impact specific credit investments. They have also brought credit protection against certain names where they think there is a long term risk that is not priced in.

SG 13 CC	Voluntary	Public	Descriptive	General

SG 13.4 CC	Describe how the organisation is using scenario analysis to manage climate-related risks and opportunities, including how the analysis has been interpreted, the results and any future plans.

☑ Initial assessment

	Describe

We look at 2°C, 4°C and 6°C temperature rise scenarios, relying on the analysis of the International Energy Agency as far as possible. In practice, those scenario analyses describe emissions reductions needed to meet long run temperature rises consistent with each outturn, as well as fossil fuel consumption, clean energy production and a few other key measures that are consistent with each scenario. However, the IEA (nor other similar organisations) does not project all of the measures on which are our analysis relies, such as carbon prices, investment requirements or hydrocarbon prices. As a result, a large part of our analysis relies on translating those standard scenarios to projections of value drivers we can use in risk measurement and management.

We have primarily focused on 2 degrees to "stress test" investment risk. Our analysis indicates that current climate action is likely to lead to a long run temperature rise around four degrees, making the six degree outcome unlikely in our view. On the other hand, the huge practical challenges of decarbonising the global economy within the next 10-15 years makes a rise below 2 degrees unlikely, in our view.

The models we have developed and provide to investors across Schroders focus on the impact to valuations of transitioning to a two degree climate pathway, from current levels. That 2-degree assumption underpins all of our models and provides a consistent basis to compare relative risks across companies and assets.

☑ Incorporation into investment analysis

	Describe

We have examined the extent to which company profits and investor returns could be at risk from tougher climate policies and higher carbon prices. Our Carbon Value at Risk model shows almost half of listed global companies would face a rise or fall of more than 20% in earnings if carbon prices rose to $100 a tonne (for further details see: http://www.schroders.com/en/about-us/corporate-responsibility/sustainability/climate-progress-dashboard/carbon-var/). We have also looked at how falling demand will impact the profitability and the fate of fossil fuel producers. Our analysis shows that up to 20% of listed companies' cashflows are at risk if policies strengthen in line with political commitments (for further details see: http://www.schroders.com/en/about-us/corporate-responsibility/sustainability/climate-progress-dashboard/fossil-fuel-producers/).

We have developed a proprietary model to help our analysts, fund managers and clients measure and manage the physical risks climate change poses. Effectively, we ask "what would it cost a company to insure against physical risks caused by climate change for the remaining life of their assets?". The costs to most global companies are under 5% of their current market value, but are higher for the most exposed companies. While smaller than the risks posed by carbon pricing or changes in demand growth, the impact is clearly significant and more certain. For further information, please see: **https://www.schroders.com/en/sysglobalassets/digital/insights/2018/thought-leadership/climate-change---the-forgotten-physical-risks_final.pdf/.**

We have examined the impact on companies' valuations from increases or decreases in growth stemming from a transition to a two degree pathway. That transition would require faster growth in low carbon industries (such as clean energy technologies) and lower investment in emissions intensive sectors (eg coal power generation). By combining the required change in growth from current levels to those needed to meet two degree targets, and combining that growth impact with profitability measures, we gauge the value impacts - positive or negative - for individual industries and companies. For information please see: **https://www.schroders.com/en/us/institutional/insights/climate-progress-dashboard/fossil-fuel-producers/.**

We have looked at the impacts on fossil fuel companies of sharp declines in demand for hydrocarbons, required to contain long run temperature rises to two degrees. By combining analysis of producers' cost positions, reserves and fossil fuel mixes, we gauge the risks posed by those assets becoming "stranded". For information please see: **https://www.schroders.com/en/us/institutional/insights/climate-progress-dashboard/fossil-fuel-producers/.**

We make all of those tools available to our analysts and fund managers and our sustainability team works with them to understand their application and implications. We focus on ensuring the risks climate change poses - positive or negative - are measured and considered in their investment decisions (and have focused on measures which quantify climate risk in dollars of value rather than tonnes of carbon as a result). That work has informed different teams' investment decisions, typically by identifying potential beneficiaries or losers, which are then examined more detail by our sector and sustainability analysts, including for instance investments in a low carbon aluminium producer and nuclear utility.

Furthermore, in several funds we explicitly avoid fossil fuel producers or limit carbon intensity of portfolios.

☑ Inform active ownership

	Describe

Schroders has been actively involved in assessing the risks and opportunities that climate change presents to the financial services industry for a long time. We have been voting on climate change resolutions since 2000 and have recorded engagements on the topic since 2002.

We have joined a number of investor initiatives to push for greater transparency and disclosure on climate risks and opportunities, including:

- **CDP**: we recognise that one of the key tools needed to integrate a consideration of climate change into the investment process is to be able to analyse companies on their greenhouse gas performance and the targets that they have set. This is why we were an early signatory to the Carbon Disclosure Project in 2006. In 2017, we engaged with 125 companies which had not responded to the CDP survey. We outlined the importance of transparency and the value of disclosures addressing their exposures to climate risks and opportunities.
- **Carbon Action Initiative**: we were a founding signatory of this initiative which aims to accelerate company action on carbon reduction and energy efficiency activities. Our involvement has been to engage with selected emissions-intensive companies that have yet to establish an emissions reduction target.
- '**Aiming for A' investor coalition**: we have co-filed a climate change resolutions at Anglo American, Glencore and Exxon. We have supported the climate change resolutions filed at Shell and Rio Tinto.
- **Climate Action 100+**: we were a founding signatory to this initiative, a five-year collaborative engagement project to engage over 100 of the world's largest corporate greenhouse gas emitters to improve governance on climate change, curb emissions consistent with a 2 degree scenario and strengthen climate-related financial disclosures in line with TCFD recommendations.

In 2018, we had more than 100 individual climate change-related engagements with companies identified in our research as being materially exposed to climate risk. We were involved in collaborative engagements, such as the Climate Action 100+ initiative, and signed a joint letter to oil and gas companies strongly encouraging them to clarify how they see their future in a low-carbon world. This should involve making concrete commitments to substantially reduce carbon emissions, assessing the impact of emissions from the use of their products and explaining how the investments they make are compatible with a pathway towards the Paris goal. We also voted on 28 climate-related shareholder resolutions.

☑ Other

	specify

To engage with policy makers

	Describe

Schroders regularly support requests to policy makers to establish binding global targets for GHG emissions reduction as well as the establishment and support for carbon markets and emission reduction technologies in order to create the soft infrastructure that will support the market in a transition to a low carbon economy.

G7 and G20 leaders: In May 2015, ahead of the Paris climate change negotiations (COP 21) we co-signed a letter to finance minsters expressing our views on the systematic risk that climate change poses. Our letter called for an ambitious long-term goal to be adopted by the G7 to limit global warming to 2 degrees Celsius above pre-industrial levels. We followed this up in 2017 with a letter to G20 leaders encouraging them to continue with progress in this area.

We have also responded to a number of consultations related to climate change and green finance.

TCFD: Following our submission in May 2016, we responded to this public consultation in February 2017.

We argued that given the systematic risks climate change poses and the scale of the challenge to mitigate its effects, every sector will be impacted. We agree with the call for more standardised data in an audited setting, but feel that the report could have gone further than endorsing many of the disclosure projects currently underway. We also advocated and encouraged the development of stronger models and analytical tools to be developed in tandem with increased reporting.

Financial Conduct Authority (FCA) consultation on climate change and green finance: Schroders provided input to IA and EFAMA and an individual response to the discussion paper on climate change and green finance (view here). We summarise the idea that climate change has no precedent, so it is very difficult to assess what the future impacts to asset valuations will be. As a result, we find that many investors respond with broad "rules of thumb" to investment strategies, which do not reflect a considered understanding of the risks posed by climate change.

SG 13.5 CC	Indicate who uses this analysis.

☐ Board members, trustees, C-level roles, Investment Committee

☑ Portfolio managers

☑ Dedicated responsible investment staff

☐ External managers

☐ Investment consultants/actuaries

☐ Other

SG 13.6 CC	Indicate whether the organisation has evaluated the impacts of climate-related risk, beyond the investment time-horizon, on the organisations investment strategy.

◉ Yes

	Describe

Our approach to climate risk analysis focuses on the long-term impacts of a climate transition, rather than emphasising changes likely to occur within a specific timeframe, which we consider a secondary question. As a result, our analysis is explicitly longterm rather than time-bound. We recognise that the timing and pace of the climate transition remains uncertain and attempting to forecast the policy, behavioural or technology changes likely to occur within a specific timeframe is fraught.

We translate those long-term climate trends to investment implications in specific investment horizons by monitoring the speed and scale of changes in climate policy and other drivers, for instance using the Climate Progress Dashboard.

Our economists have similarly assessed the long-term impacts of climate change on the global economy, under different scenarios, gauging the impacts on world GDP through 2100. For more information please see:
https://www.schroders.com/en/sysglobalassets/staticfiles/schroders/sites/americas/canada/documents/wade-climate-change-global-economy.pdf.

○ No

SG 13.7 CC	Indicate whether a range of climate scenarios is used.

◉ Yes, including analysis based on a 2°C or lower scenario

○ Yes, not including analysis based on a 2°C or lower scenario

○ No, a range is not used

SG 13.8 CC	Indicate the climate scenarios the organisation uses.

Provider	Scenario used
IEA	☑ Beyond 2 Degrees Scenario (B2DS)
IEA	☑ Energy Technology Perspectives (ETP) 2 Degrees scenario
IEA	☑ Sustainable Development Scenario (SDS)
IEA	☑ New Policy Scenario (NPS)
IEA	☑ Current Policy Scenario (CPS)
IRENA	☐ RE Map
Greenpeace	☐ Advanced Energy [R]evolution
Institute for Sustainable Development	☐ Deep Decarbonisation Pathway Project (DDPP)
Bloomberg	☐ BNEF reference scenario
IPCC	☐ Representative Concentration Pathway (RCP) 8.5
IPCC	☐ RPC 6
IPCC	☐ RPC 4.5
IPCC	☐ RPC 2.6
Other	☐ Other (1)
Other	☐ Other (2)
Other	☐ Other (3)

SG 14	Mandatory to Report Voluntary to Disclose	Public	Additional Assessed	PRI 1

SG 14.1	Some investment risks and opportunities arise as a result of long term trends. Indicate which of the following are considered.

☑ Changing demographics

☑ Climate change

☑ Resource scarcity

☑ Technological developments

☑ Other, specify(1)

	other description (1)

Geopolitical risk: risks of increasing barriers to global trade, capital flows and migration

☑ Other, specify(2)

	other description (2)

Social unrest: resulting from within country disparities in income and opportunity

☐ None of the above

SG 14.2	Indicate which of the following activities you have undertaken to respond to climate change risk and opportunity

☑ Established a climate change sensitive or climate change integrated asset allocation strategy

☑ Targeted low carbon or climate resilient investments

	Specify the AUM invested in low carbon and climate resilient portfolios, funds, strategies or asset classes.

	trillions	billions	millions	thousands	hundreds
Total AUM		1	213	638	000
Currency	USD				
Assets in USD		1	213	638	000

	Specify the framework or taxonomy used.

We have developed a number of proprietary tools to help us understand how climate change will impact industries and companies:

- **Climate Progress Dashboard**: Tracks the pace of change across a range of measures that will be required to meet long term emissions reduction targets. It provides us and our clients with an objective, transparent and comprehensive view of the pace and scale of global climate action
- **Carbon Value at Risk:** Measures risks to companies' earnings should carbon prices rise to $100/t, modelling direct and indirect cost increases as well as price and volume implications
- **Physical Risk model:** Measures the risks to the value of companies' assets from rising physical damage caused by climate change
- **Climate Change growth model:** Measures the positive or negative impacts on companies' value from the faster or slower growth in demand for different products and services resulting from a low carbon transition
- **Fossil fuel risk model**: Measures the risk to hydrocarbon valuations from phasing out fossil fuel use

☐ Phase out your investments in your fossil fuel holdings

☑ Reduced portfolio exposure to emissions intensive or fossil fuel holdings

☑ Used emissions data or analysis to inform investment decision making

☑ Sought climate change integration by companies

☑ Sought climate supportive policy from governments

☑ Other, specify

	other description

Assessment of the impact of company profitability if carbon prices price to $100/tonne. Physical Risk exposure assessment

☐ None of the above

SG 14.3	Indicate which of the following tools the organisation uses to manage climate-related risks and opportunities.

☑ Scenario analysis

☑ Disclosures on emissions risks to clients/trustees/management/beneficiaries

☐ Climate-related targets

☑ Encouraging internal and/or external portfolio managers to monitor emissions risks

☑ Emissions-risk monitoring and reporting are formalised into contracts when appointing managers

☑ Weighted average carbon intensity

☑ Carbon footprint (scope 1 and 2)

☑ Portfolio carbon footprint

☐ Total carbon emissions

☑ Carbon intensity

☑ Exposure to carbon-related assets

☐ Other emissions metrics

☑ Other, specify

	other description

Please refer to Schroders' proprietary tools mentioned above.

☐ None of the above

SG 14.4	If you selected disclosure on emissions risks, list any specific climate related disclosure tools or frameworks that you used.

We have tools to provide clients with reports showing how the funds they are invested in compare to the benchmark across a range of climate measures. We are also able to show fund exposures using our proprietary climate models.

SG 14.5	Additional information [Optional]

We continue to develop climate change models and provide our investors with data on climate risk.

In 2017 we launched our Climate Progress Dashboard. The dashboard monitors 12 indicators to show the progress governments and industries around the world are making towards decarbonising the global economy.

It compares projections made by international organisations to estimate the temperature change implied by the progress in each area. Together, they suggest we are heading for a rise closer to 4° than the 2° commitment global leaders made in Paris in 2015. More information can be found at: **http://www.schroders.com/en/lu/professional-investor/featured/climate-change-dashboard/.**

We then developed a proprietary carbon Value at Risk model which provides a systematic and objective guide on the effect of higher carbon prices on companies' earnings and value. It takes into account a number of factors neglected by standard methods of analysis such as carbon footprints. More information can be found at: **http://www.schroders.com/globalassets/global-assets/english/pdf/climate-change---redefining-the-risks.pdf.**

In 2018 we built on our previous climate change research and developed a proprietary model to help our analysts, fund managers and clients measure and manage the physical risks climate change poses. Effectively, we ask "what would it cost a company to insure against physical risks caused by climate change for the remaining life of their assets?". The costs to most global companies are under 5% of their current market value, but are higher for the most exposed companies. While smaller than the risks posed by carbon pricing or changes in demand growth, the impact is clearly significant and more certain. For further information, please see: **https://www.schroders.com/en/sysglobalassets/digital/insights/2018/thought-leadership/climate-change---the-forgotten-physical-risks_final.pdf/.**

SG 14 CC	Voluntary	Public		General

SG 14.6 CC	Please provide further details on these key metric(s) used to assess climate related risks and opportunities.

Metric Type	Coverage	Purpose	Metric Unit	Metric Methodology
Weighted average carbon intensity	☐ All assets ☐ Majority of assets ☑ Minority of assets	Provided to interested clients on request	Tonnes CO2e/ $mn sales invested	Scope 1 and 2 greenhouse gas emissions relative to market cap. for each company, weighted according to the company's weight in each portfolio
Carbon footprint (scope 1 and 2)	☐ All assets ☐ Majority of assets ☑ Minority of assets	Provided to interested clients on request	Tonnes CO2e/ $mn sales	Scope 1 and 2 greenhouse gas emissions relative to market cap. for each company, weighted according to the company's weight in each portfolio
Portfolio carbon footprint	☐ All assets ☐ Majority of assets ☑ Minority of assets	Provided to interested clients on request	Tonnes CO2e/ $mn sales	Scope 1 and 2 greenhouse gas emissions relative to sales for each company, weighted according to the company's weight in each portfolio
Carbon intensity	☐ All assets ☐ Majority of assets ☑ Minority of assets	Provided to interested clients on request	Tonnes CO2e/ $mn market cap	Scope 1 and 2 relative to sales
Exposure to carbon-related assets	☐ All assets ☐ Majority of assets ☑ Minority of assets	Provided to interested clients on request	% current portfolio value	Percentage of portfolio's assets invested in companies which generate more than a specific share of revenues from fossil fuel assets (either production or power generation)

SG 14.8 CC	Indicate whether climate-related risks are integrated into overall risk management and explain the risks management processes for identifying, assessing, and managing climate-related risks.

◉ Process for climate-related risks is integrated into overall risk management

	Please describe

We consider it important to quantify the financial exposures companies or sectors face, in order to compare those risks to others facing companies. We have developed proprietary tools such as the Carbon VAR model described above to provide an objective measure of the risk exposure companies face. The likelihood that risks translate into tangible investment impacts is also important in their prioritisation. Our Climate Progress Dashboard provides an objective way to gauge changes in the key elements of climate action.

○ Process for climate-related risks is not integrated into our overall risk management

SG 14.9 CC	Indicate whether the organisation undertakes active ownership activities to encourage TCFD adoption.

◉ Yes

	Please describe

Schroders has publicly supported the TCFD recommendations: **https://www.fsb-tcfd.org/wp-content/uploads/2017/06/TCFD-Supporting-Companies-28-June-2017-FINAL.pdf.**

We have also signed up to a Global Investor Statement on Climate Change (post-Paris climate agreement) along with around 400 global investors, committing to take a series of steps to contribute to a low carbon and climate resilient investments (see here: **http://globalinvestorcoalition.org/wp-content/uploads/2016/09/2014_GlobalInvestState_ClimChange_092316.pdf**).

One of these steps is to work with the companies in which we invest to ensure they are minimising and disclosing climate risks and opportunities. While our engagement records demonstrate that this commitment is not new to us, our expectations of investee companies and the relevance of material climate-related disclosure are both rising rapidly.

In 2018, we had more than 100 individual climate change-related engagements with companies identified in our research as being materially exposed to climate risk. We have specifically asked companies to report in line with TCFD recommendations.

We have also exerted our influence through voting in support of resolutions asking for greater transparency around companies' scenario planning. We typically support resolutions asking companies to disclose the impacts of a climate transition on their business and their planning for that transition. Scenario analysis and transparency are key elements of the TCFD recommendations.

○ No, we do not engage

SG 15	Mandatory to Report Voluntary to Disclose	Public	Descriptive	PRI 1

SG 15.1	Indicate if your organisation allocates assets to, or manages, funds based on specific environmental and social themed areas.

◉ Yes

SG 15.2	Indicate the percentage of your total AUM invested in environmental and social themed areas.

	%

0.2

SG 15.3	Specify which thematic area(s) you invest in, indicate the percentage of your AUM in the particular asset class and provide a brief description.

	Area

☑ Energy efficiency / Clean technology

	Asset class invested

☑ Listed equity

	% of AUM

0.1

☐ Fixed income - SSA

☐ Fixed income - Corporate (financial)

☐ Fixed income - Corporate (non-financial)

☐ Fixed income - Securitised

☐ Private equity

☐ Property

☐ Other (1)

☐ Other (2)

	Brief description and measures of investment

Schroder ISF Global Climate Change Equity is an actively managed, thematic global equity strategy that seeks to maximise excess returns by investing in companies that are positively impacted, or likely to benefit, from efforts to mitigate or adapt to the impact of climate change. The strategy does not invest in companies that own fossil fuel reserves (e.g. oil, coal, gas, tar-sands, shale-gas).

☐ Renewable energy

☐ Green buildings

☐ Sustainable forestry

☑ Sustainable agriculture

	Asset class invested

☑ Listed equity

	% of AUM

0.1

☐ Fixed income - SSA

☐ Fixed income - Corporate (financial)

☐ Fixed income - Corporate (non-financial)

☐ Fixed income - Securitised

☐ Private equity

☐ Property

☐ Other (1)

☐ Other (2)

Brief description and measures of investment

See above response for our Global Climate Change strategy.

☐ Microfinance

☐ SME financing

☐ Social enterprise / community investing

☐ Affordable housing

☐ Education

☑ Global health

Asset class invested

☑ Listed equity

% of AUM

0.1

☐ Fixed income - SSA

☐ Fixed income - Corporate (financial)

☐ Fixed income - Corporate (non-financial)

☐ Fixed income - Securitised

☐ Private equity

☐ Property

☐ Other (1)

☐ Other (2)

Brief description and measures of investment

Schroders' Global Healthcare Fund invests in healthcare, medical services and related products and companies on a worldwide basis.

☐ Water

☑ Other area, specify

Schroder ISF: Global Sustainable Growth, QEP Global ESG, QEP Global ESG ex Fossil Fuels, Sustainable Multi Factor Equity, European Sustainable Equity

Asset class invested

☑ Listed equity

% of AUM

0.2

☐ Fixed income - SSA

☐ Fixed income - Corporate (financial)

☐ Fixed income - Corporate (non-financial)

☐ Fixed income - Securitised

☐ Private equity

☐ Property

☐ Other (1)

☐ Other (2)

	Brief description and measures of investment

Schroder ISF Global Sustainable Growth: an actively managed, global equity strategy investing in companies demonstrating positive sustainability characteristics, defined as managing the business for the long-term, and recognising their responsibilities to a broad group of stakeholders.

Schroder ISF QEP Global ESG: ESG considerations are incorporated into our fundamental analysis of companies. Companies with strong ESG credentials receive higher allocations. We also conduct a programme of engagement on the fund's holdings.

S**chroder ISF Sustainable Multi Factor Equity**: a systematic, benchmark-relative global equity strategy with a fully integrated approach to sustainable investing. Sustainability is treated as a risk factor, using an innovative proprietary framework (SustainEx), and is integrated into the multi-factor strategy alongside value, quality, momentum and low volatility. The fund is constrained to half the carbon intensity of the index.

Schroder ISF European Sustainable Equity: focuses on companies demonstrating positive sustainability characteristics, measured by Schroders' proprietary ESG analysis tool, CONTEXT. The fund managers believe companies demonstrating positive sustainability characteristics e.g. managing the business for the long term, recognising its responsibilities to its customers, employees, and suppliers, and respecting the environment, are better-placed to maintain their growth and returns over the long term.

○ No