# CLIMATE TRANSPARENCY REPORT 2020

## 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 2020 PRI Reporting Framework.

# About this report

This report is an export of only the climate-related indicators from the 2020 Reporting Framework response. The full Public Transparency Report is available here (https://reporting.unpri.org/surveys/PRI-reporting-framework-2020/-AFAFB85D-4DC7-4020-841B-3D86CDD08F56/79894dbc337a40828d895f9402aa63de/html/2/?lang=en&a=1). 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 2020 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 01.6 CC | ✓ | Public | | | | |
| SG 01.7 CC | ✓ | Public | | | | |
| SG 01.8 CC | ✓ | Public | | | | |
| SG 01.9 CC | ✓ | Public | | | | |
| SG 01.10 CC | ✓ | 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 14.6 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 | | | | |

| 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** | 65% 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. |
|---|---|

| SG 01 CC | Mandatory to Report Voluntary to Disclose | Public | Descriptive | General |
|---|---|---|---|---|

| SG 01.6 CC | Indicate whether your organisation has identified transition and physical climate-related risks and opportunities and factored this into the investment strategies and products, within the organisation's investment time horizon. |
|---|---|

◉ Yes

| | Describe the identified transition and physical climate-related risks and opportunities and how they have been factored into the investment strategies/products. |
|---|---|

We recognise climate change risk as a key risk facing our business which arises from both physical risks from extreme weather events linked to increasing global temperatures and transition risks as the global economy shifts to a low carbon environment.

It is our central thesis that significant and disruptive changes are needed to limit rises to 2°C. Failure to make those changes in time will lead to escalating physical damage, social instability and economic losses. The impact of climate change is therefore unavoidable, even if the timing and types of impact remain uncertain. Every part of the global economy, every industry and every company will be affected to some extent, not just the most obviously challenged. The complexity of this change means that it is a source of considerable risk for the markets in which we invest.

Approximately 80% of emissions are embodied in sectors that represent 20% of market capitalisation - these will feel the brunt of the transition impacts but the effects in others will also be important.

We have modelled transition risk though carbon pricing and forecast that up to 15% of equity market capitalisation is at risk over the medium term. Our modelling of physical risk shows smaller but more immediate costs in the region of 5% of enterprise values. All of these detailed models are available to our investors at a company and portfolio level and can be flexed to reflect different assumptions.

Decarbonising the global economy will create huge disruption, but there will also be significant investment opportunities. Investors can either focus on the sectors that will face the largest direct pressures, or they can look at the broader impacts and more nuanced indirect effects which may be less acute in many cases but are also typically less well understood by the market. We expect most of these to unfold over the medium and longer term. We have focused our activities on building tools that enable this to happen, even if we are less than certain when risks like transition will begin to occur.

For our investment activities, our fund managers are responsible for identifying and managing risks to their portfolios, including those relating to climate change. The Sustainable Investment team has an important role to play in providing research and the tools discussed above to enable this to happen. The team reports into the Head of Investment, who sits on our Group Management Committee (GMC) and works with the different investment teams to ensure that these tools are used as effectively as possible.

We have launched and evolved sustainable funds to meet client needs (for our climate change & energy transition funds that sit alongside our fossil fuel free and low carbon solutions, see SG 15.3). We recognise the need to evolve our products; our Global Sustainable Growth fund became explicitly fossil fuel free in 2019, joining a number of existing products in this space. We expect the product opportunity to gain traction and have an impact over the medium term.

○ No

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

◉ Yes

| | Describe 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. We have examined what it would costs companies to insure their physical assets for their average remaining life against hazards caused by rising global temperatures and weather disruption.

Insofar as those impacts reflect rising temperatures based on 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 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:

**Carbon Value at Risk**: examines 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 incentivise decarbonisation on the necessary scale, which is likely to prove a medium term risk (5+ years).

**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).

**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 01.8 CC | Indicate whether the organisation publicly supports the TCFD? |
|---|---|

◉ Yes

○ No

| SG 01.9 CC | Indicate whether there is an organisation-wide strategy in place to identify and manage material climate-related risks and opportunities. |
|---|---|

◉ Yes

Describe

Our Group CEO retains overall responsibility for our strategy in relation to climate change. The Global Head of Investment, a member of our Group Management Committee is responsible for managing climate-related risks and opportunities relating to clients' investments.

We have invested heavily in developing tools to help our analysts and fund managers better understand the threat climate change poses to portfolios. No single measure can capture the breadth of climate impacts, but combined they provide a rounded view of the challenge ahead. Our framework focuses on business and investment impacts, starting with "what needs to change to reach a 2° target?" We then look at how changes will be achieved, those changes effects on companies' competitiveness, how changes in competitiveness affect companies' values and how risks to company values would impact portfolio valuations. We deliberately capture the impacts of likely changes as logically and fully as possible, rather than starting with data or metrics most commonly used by investors.

The Sustainability team works with investors across Schroders to help ensure the investment risks are identified and incorporated into investment decisions. We believe a thoughtful process grounded in understanding performance drivers within a comprehensive investment framework is vital to effective climate risk management.

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

We developed the Climate Progress Dashboard to monitor the speed and scale of change. This is updated quarterly and published via our website.

We 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. That often prompts in-depth discussions on individual stocks to better understand company-specific risks and opportunities beyond those which can be quantified systematically (e.g. 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.

Knowing that we cannot completely eliminate the risk, we engage with management to push for more transparency or changes in strategy to address risks we feel remain. In 2019 we had over 230 climate change-related engagements with over 200 companies including collective engagement through Climate Action 100. We also ran our second event for non executive directors to educate them on the impacts climate change will have on all business models and to urge them to take action.

As a business we announced in 2019 that we are targeting net zero emissions going forward.

○ No

| SG 1.10 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

specify

Disclosure through CDP

☐ We currently do not publish TCFD disclosures

## Governance and human resources

| SG 07 CC | Mandatory to Report Voluntary to Disclose | 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 heads of departments |
|---|---|

☑ 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 that have climate-related issue 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. In 2017 we joined the RE 100, a commitment to using 100% renewable energy by 2025. In 2019 we announced our commitment to run our global operations on a net zero basis as of 1 January 2020. This commitment will be achieved through a combination of initiatives designed to reduce Schroders' gross emissions, as well as a carbon offsetting programme.

- 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 we integrate ESG factors across all of our investments by the end of 2020, 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 Head of Sustainable Research has also joined the FCA initiative on climate risk. (See SG13.4 for more information)

Schroders' corporate revolving credit facility has been converted into an ESG-linked facility, underlining our commitment to sustainability from a corporate, as well as investment, perspective. The facility's pricing will be dependent on our performance against three ESG Key Performance Indicators (KPIs) which are also disclosed in Schroders' Annual Report and Accounts. These include:

- To reflect Schroders' membership of the Climate Group and Carbon Disclosure Project RE100 initiative, the percentage of global electricity generated from renewable sources
- To reflect the Group being a signatory to the Women in Finance Charter, the percentage of women in senior management roles
- To reflect the Group being a signatory to the United Nations-supported Principles for Responsible Investment (PRI) Initiative, the UN PRI Rating

We will certify performance against these KPIs on an annual basis, based on disclosures in our Annual Report and Accounts.

If Schroders achieves these objectives, the facility's borrowing margin will decrease, while the credit facility's commitment fee will also fall. If Schroders fails to meet these objectives, the borrowing margin and commitment fee will both rise.

| SG 07.8 CC | Indicate how your organisation engages external investment managers and/or service providers on the TCFD recommendations and their implementation. |
|---|---|

☑ Request that external managers and/or service providers incorporate TCFD into mainstream financial filings (annual financial reports, other regulatory reporting or similar)

☐ Request incorporation of TCFD into regular client reporting

☑ Request that external managers complete PRI climate indicator reporting

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

☐ Other

☐ We do not engage with external managers and/or service providers on the TCFD recommendations and their implementation

## ESG issues in asset allocation

| SG 13 | Mandatory | Public | Descriptive | PRI 1 |
|---|---|---|---|---|

| | |
|---|---|
| **SG 13.1** | Indicate whether the organisation carries out scenario analysis and/or modelling, and if it does, provide a description of the scenario analysis (by asset class, sector, strategic asset allocation, etc.). |

☑ Yes, in order 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, in order 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, our organisation does not currently carry out scenario analysis and/or modelling

| | |
|---|---|
| **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] |

In 2019 we wrote two thought leadership papers with the multi-asset team. We suggested:

a sustainability budget (**https://www.schroders.com/en/sysglobalassets/digital/insights/2019/pdfs/thought-leadership/managing-sustainability-from-a-total-portfolio-perspective/managing-sustainability-from-a-total-portfolio-perspective-final.pdf)**

and potential diversification benefits (**http://collaboration.london.schroders.com/franchises/sustainability/Sustainability/2019%2005%20Practical%20considerations%20of%20ESG%20in%20Multi-asset.pdf**)

We identified that sustainability issues play more of a role in strategic over tactical asset allocation, given their long term nature. our preliminary work indicates equity and EM assets could be more at risk from the climate transition. We're doing more work on this over 2019/2020.

Investment desks incorporate ESG considerations when determining allocations amongst geographies and sectors. For example our Country Dashboard looks at longer term ESG factors helpful for making allocation decisions.

Investment analysts across asset classes operate on sector lines. They build up a picture of the long term outlook for their sectors based on how environmental and social change will impact the operating backdrop. This feeds into their regular sector reviews and recommendations which influence allocations within portfolios.

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

| SG 13 CC | Mandatory to Report Voluntary to Disclose | Public | Descriptive | General |
|---|---|---|---|---|

| SG 13.4 CC | Describe how your organisation is using scenario analysis to manage climate-related risks and opportunities, including how the analysis has been interpreted, its 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. We continue to engage with companies to encourage disclosure in line with CDP.
- **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 2019, we had more than 230 climate change-related engagements with over 200 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 led the engagement with Chinese cement company, Conch. We also voted on 39 climate-related shareholder resolutions and co-filed one shareholder resolution at BP's AGM through Climate Action 100+. The resolution received overwhelming support from shareholders and BP.

☑ Other

| | specify |
|---|---|

To engage with policy makers

| | Describe |
|---|---|

Schroders supports 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.

**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. 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. We also expressed our strong support for asset level disclosure. Following this letter, we met with the FCA Head of department and Manager who are dealing with climate change and sustainability. We discussed their paper on climate change and green finance in more detail and explained our approach to climate change, our proprietary climate risk models and our approach to sustainability more broadly.

**FCA** & PRA climate financial risk forum (CFRF): The objective of the CFRF is to build capacity and share best practice across financial regulators and industry to advance our sector's responses to the financial risks from climate change. It brings together senior representatives from across the financial sector, including banks, insurers, and asset managers. Since its inception in March 2019, the CFRF has set up 4 technical working groups on disclosure, scenario analysis, risk management and innovation.Schroders is actively involved in two working groups: disclosure and innovation. We have engaged directly with the Bank of England in 1:1 and group meetings, both as part of the forum and independently, to discuss issues around climate risk.

**The Climate Change Coalition:** This feeds into UK government policy. Schroders is contributing to a sub-group of the coalition to develop a set of policy recommendations that can be used by UK government to ensure the flow of capital and to align financial markets and the UK climate goals to decarbonise the economy by 2050.

**Bloomberg Sustainable Investing Regulatory Working Group:** Schroders attends regular meetings at Bloomberg's London HQ to discuss developments within the EU sustainable finance package and taxonomy. To date this has involved reviews of applications of the taxonomy, proposed benchmarks and disclosures that firms are planning for, bringing together opinions from the financial services industry and discussing concerns.

| 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 your organisation has evaluated the potential impact of climate-related risks, beyond the investment time horizon, on its 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 long term 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. |
|---|---|

☑ Analysis based on a 2°C or lower scenario

☐ Analysis based on an abrupt transition, consistent with the Inevitable Policy Response

☑ Analysis based on a 4°C or higher scenario

☐ No, a range is not used

| SG 13.8 CC | Indicate the climate scenarios your 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)





Principles for Responsible Investment

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 | | 2 | 125 | 367 | 000 |
| Currency | USD | | | | |
| Assets in USD | | 2 | 125 | 367 | 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 14.5 | Additional information [Optional] |
|---|---|

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

Our Climate Progress 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/.**

Our proprietary carbon Value at Risk model 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.**

We have also 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**

Most recently we have looked into avoided emissions. Data on scope 3 emissions is emerging and - although not perfect - is beginning to prove useful for more systematic analysis. We assessed over 10,000 companies on their net emissions, based on a "full system" (including scope 3), rather than simply focusing on direct operations. We believe it is important to understand a company's $CO_2$ emission profile from a holistic value chain perspective, as it may allow investors to capture unpriced future earnings potential as part of the transition to a low-carbon economy. We will publish our research in 2020.

| SG 14 CC | Voluntary | Public | | General |
|---|---|---|---|---|

| SG 14.6 CC | Provide further details on the 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<br>☐ Majority of assets<br>☑ 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<br>☐ Majority of assets<br>☑ 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<br>☐ Majority of assets<br>☑ 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<br>☐ Majority of assets<br>☑ 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<br>☐ Majority of assets<br>☑ 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 risk management processes used for identifying, assessing and managing climate-related risks. |
|---|---|

◉ Processes for climate-related risks are 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.

○ Processes for climate-related risks are not integrated into overall risk management

| SG 14.9 CC | Indicate whether your organisation, and/or external investment manager or service providers acting on your behalf, undertake 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 more than 600 global investors, committing to take a series of steps to contribute to a low carbon and climate resilient investments (see here: https://unfccc.int/news/631-institutional-investors-managing-more-than-usd-37-trillion-in-assets-urge-governments-to-step-up).

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 2019, we had more than 230 climate change-related engagements with over 200 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 undertake active ownership activities.

○ No, we do not undertake active ownership activities to encourage TCFD adoption.

| 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. |
|---|---|

| | % |
|---|---|

1.06

| 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

### Percentage of AUM (+/-5%) per asset class invested in the area

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).

**Schroder ISF Global Energy Transition** is an unconstrained thematic strategy which invests in companies worldwide that are directly associated with and actively involved in the transition towards more sustainable forms of energy production and consumption. The fund does not invest in any companies with any exposure to fossil fuels and nuclear power.

☑ Renewable energy

## Asset class invested

☑ Listed equity

### Percentage of AUM (+/-5%) per asset class invested in the area

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).

**Schroder ISF Global Energy Transition** is an unconstrained thematic strategy which invests in companies worldwide that are directly associated with and actively involved in the transition towards more sustainable forms of energy production and consumption. The fund does not invest in any companies with any exposure to fossil fuels and nuclear power.

☑ Green buildings

Asset class invested

☐ Listed equity

☐ Fixed income - SSA

☐ Fixed income - Corporate (financial)

☐ Fixed income - Corporate (non-financial)

☐ Fixed income - Securitised

☐ Private equity

☑ Property

Percentage of AUM (+/-5%) per asset class invested in the area

2

☐ Other (1)

☐ Other (2)

Brief description and measures of investment

Our direct real estate business takes environmental standards into account in thier investment.

☐ Sustainable forestry

☑ Sustainable agriculture

Asset class invested

☑ Listed equity

Percentage of AUM (+/-5%) per asset class invested in the area

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

| | Asset class invested |
|---|---|

☐ Listed equity

☐ Fixed income - SSA

☐ Fixed income - Corporate (financial)

☐ Fixed income - Corporate (non-financial)

☐ Fixed income - Securitised

☑ Private equity

| | Percentage of AUM (+/-5%) per asset class invested in the area |
|---|---|

0.6

☐ Property

☐ Other (1)

☐ Other (2)

| | Brief description and measures of investment |
|---|---|

In 2019 Schroders acquired a majority stake in BlueOrchard. BlueOrchard is the pioneer in microfinance and impact investing. Founded in 2001, it is the world's first commercial manager of microfinance debt investments. Today, the firm offers investors premium impact investment solutions across asset classes, including credit, private equity and sustainable infrastructure and is an expert in innovative blended finance mandates.

☐ SME financing

☐ Social enterprise / community investing

☐ Affordable housing

☐ Education

☑ Global health

| | Asset class invested |
|---|---|

☑ Listed equity

Percentage of AUM (+/-5%) per asset class invested in the area

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 (+ ex Fossil Fuels), Sustainable Multi Factor Equity, European Sustainable Equity, Swiss Sustainable Equity, Sustainable EURO Credit

Asset class invested

☑ Listed equity

Percentage of AUM (+/-5%) per asset class invested in the area

0.3

☐ 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

**Please see the attached document**

○ No

| SG 15.4 | Please attach any supporting information you wish to include. [OPTIONAL] |
|---|---|

File 1:Supporting material for SG15.3.docx