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ESG/Sustainability within risk management framework

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Understanding the ESG regulatory framework

Tackling sustainability

The European Union journey

Finance can make the difference

The EU has committed to three ambitious climate and energy targets by 2030:

Minimum
40%
cut in greenhouse gas emissions compared to 1990 levels

At least a
32%
share of renewables in final energy consumption

At least
32.5%
energy savings compared with the business-as-usual scenario

To make the EU climate-neutral by 2050, Europe needs between **€175–290 billion** in additional yearly investment in the next decades

Important for insurers to get ahead of regulatory trend to avoid being left behind

Sustainability/ESG regulatory roadmap

- **2014** — **European Commission**: NFRD[1] to be applied in 2018 (based on year 2017) by Member States
- **Aug 2015** — **France**: Law for Energy Transition and Green Growth, Art 173 and reporting obligations
- **Sep 2015** — **Mark Carney**: Speech on the Tragedy of the Horizons
- **Dec 2015** — **Paris Agreement**: to keep global warming well below 2°C
- **Jul 2017** — **TCFD[2]**: Report led by the FSB
- **Jan 2018** — **EU**: High Level Expert Group report on Sustainable Finance
- **Mar 2018** — **EU**: Action Plan on Sustainable Finance
- **May 2018** — **EC**: Adoption of a package of measures on sustainable finance
- **Jul 2018** — **EU**: Technical Expert Group on Sustainable Finance
- **Dec 2018** — **EIOPA**: 1st Consultation on ESG integration within SII
- **Jan 2019** — **EU**: TEG releases report on disclosures
- **Mar 2019** — **EU**: Disclosure regulation
- **Jun 2019** — **EU**: Revised version of the non-binding guidelines addressing the NRFD; TEG releases Taxonomy Report; TEG releases Green bonds standard report. **EIOPA**: 2nd consultation on ESG integration within SII
- **Sep 2019** — **EU**: TEG releases Benchmarks report
- **Apr-Jun 2020** — **EIOPA / ESMA / EBA**: Consultation on ESG Disclosure
- **2020 2021** — **EIOPA**: ESG Disclosure in force; ESG integration in SII & IDD in force

Note: [1]Non-financial reporting directive. [2]FSB's task force on climate related financial disclosures.

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Understanding EU long term action plan

One comprehensive strategy to finance sustainable growth

Reorienting capital flows towards **sustainable investment**

Mainstreaming Sustainability into **risk management**

Fostering transparency and **long-termism**

10 Actions	
1 **Establish EU Sustainable taxonomy**	6 **Integrate ESG in ratings and market research**
2 **Create standards and labels**	7 **Clarify institutional investors and asset managers duties**
3 **Foster investment in Sustainable projects**	8 **Incorporate Sustainability in prudential requirements**
4 **Incorporate sustainability in investment advice**	9 **Strengthen Sustainability disclosure and accounting**
5 **Develop Sustainability benchmarks**	10 **Foster Sustainable corporate governance**

Source: European Commission: Action Plan on Financing Sustainable Growth (2018).

Disclosures by financial entities from 2021 on 2020

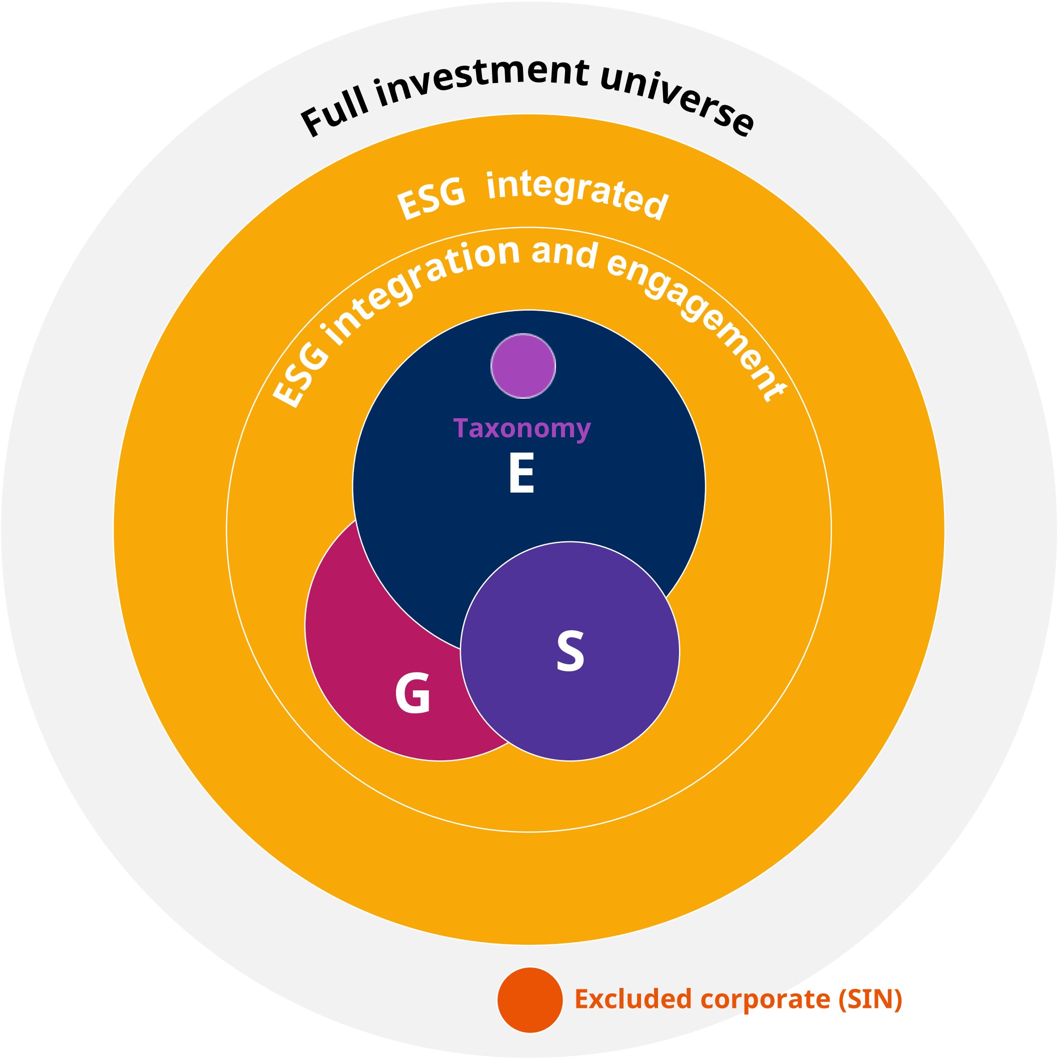
The disclosures regulation places the following requirements on financial market participants:

Scope	What to disclose	Where to disclose	Who should disclose
All investment products	**How negative impacts on financial returns arising from sustainability risks are integrated in risk policies**	Websites, pre-contractual information, marketing communication	All financial entities
	How the financial entity considers adverse impacts on sustainability factors (negative externalities)	Websites, pre-contractual information	Compulsory for financial entities >500 and holding companies, other entities to disclose on a comply or explain basis
	How the financial entity, as a share or debt holder, is engaging the corporate to reduce their negative externalities		Compulsory for financial entities >500 and holding companies, other entities to disclose on a comply or explain basis
Investment products with sustainability characteristics or objectives	**How these sustainability characteristics or objectives are met**	Pre-contractual information, websites, periodical reports, marketing communication	All financial entities

Source: European Commission: Proposal for a regulation on disclosures relating to sustainable investments and sustainability risks and amending Directive (EU) 2016/2341 (2018).

EU taxonomy and potential investment universe

Global Corporate universe (equity, fixed income, private assets)



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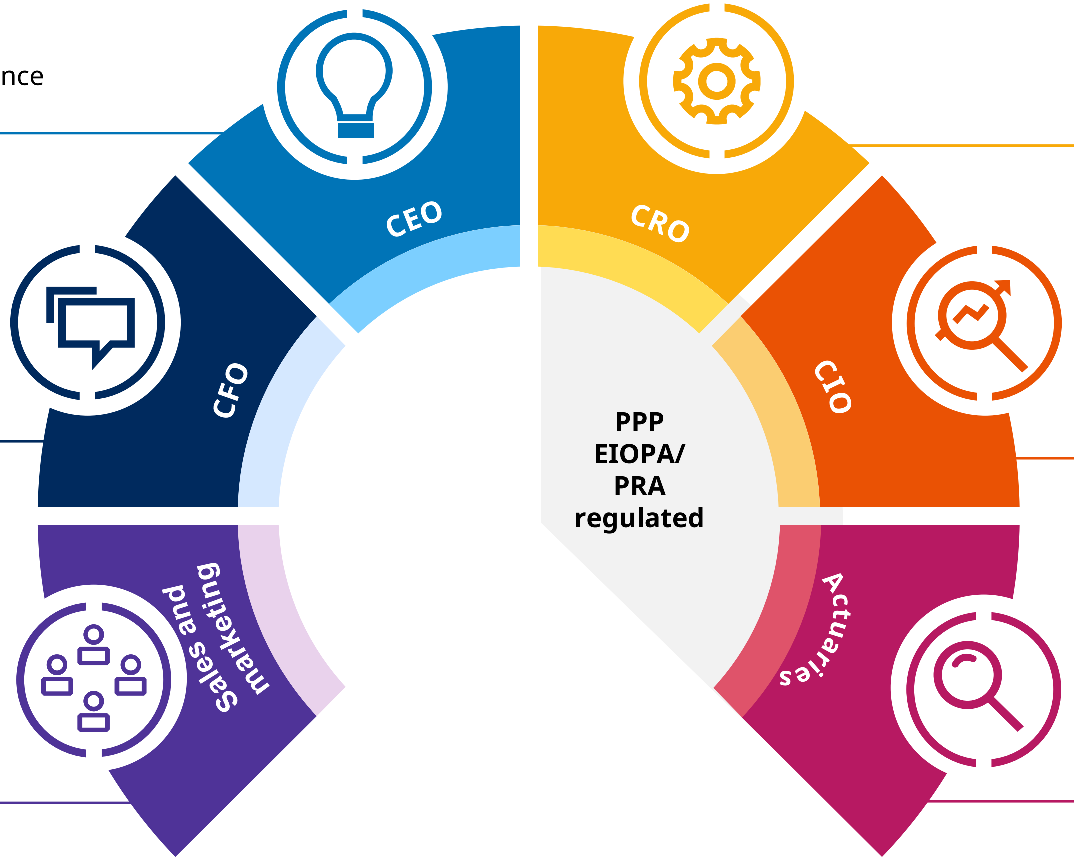
Key functions are impacted by ESG

Top management
- Awareness of reputational risk and making sure that risk mitigating factors are in place
- defining the ESG strategy and corporate governance
- Minimizing externalities of the investment

Finance
- Delivering reportings, including ESG reportings (CSR reports etc.)
- Analysing ESG impact on accounting
- Ensuring share holder value

Sales & Marketing
- Which products to be sold to policy holders?
- How positioning the company?



Risk Management
- Including sustainability and ESG risks in the risk framework (Solvency II, economic model etc.)
- Challenging CIO, Actuaries, ALM vs. ESG risk

Investment
- Defining ESG criteria for the investment portfolio
- Portfolio screening
- Proposing scenario to optimize yield and ESG
- Implementation of the strategy

Liabilities
- Defining ESG criteria for the liabilities
- Portfolio screening
- Proposing business strategies

Source: Schroders.

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Integrating ESG and Climate

Within the risk management framework

ESG strategy building

Which steps do you need to implement?

1 Screening your current ALM, what is your current situation

1. Identifying ESG raw risk criteria, especially climate and sustainability risks
   - Ecological – electricity consumption, GHG emissions…
   - Social – proportion of female executive…
   - Governance – reporting, executive package…
2. Creating and application of screening tools
3. Running the analysis and aggregating this info with the right indicators, e.g.
   - E – temperature or carbon footprint of the investment portfolio
   - S – employee satisfaction/well being
   - G – transparency rating

2 Defining objectives and timing, e.g.

- E – Reducing the portfolio’s temperature from current 4 degrees down to 2 degrees within 10 year
- S – Engaging companies to improve the employees well being (from score A to score B within 15 years)
- G – Eliminating corporate without transparency

3 Implementation

1. Risk assessment: measuring the sensitivity of the portfolio to the objectives and to the ESG risk criteria
2. Investment process: choosing and applying one or several levels of ESG integration
   - Impact investment (explicit factor)
   - Exclusion (exclusion of tobacco…)
   - Thematic/best in class investment
   - Full ESG integration across the balance sheet
   - Active ownership to transition corporate: voting and engagement
3. Communication/ESG disclosure, reporting
   - Corporate: communicating in coherence with all the above!

ESG strategy building

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Your investments (equities, bonds, loans etc.) finance

Companies, states, real estate projects that are impacted by and impact E S or G factors

Our approach: starting with possible quantifiable impacts, ~50 business activities, with measurable social costs or benefits

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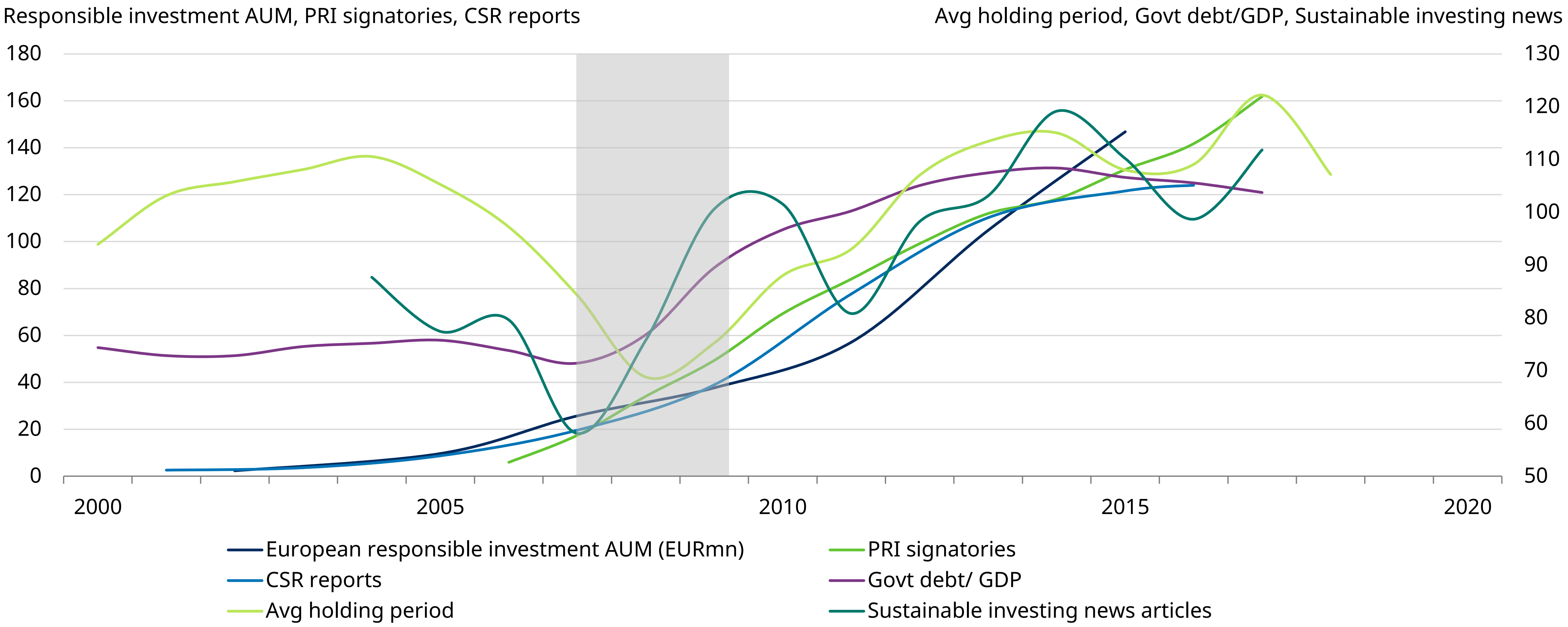
SustainEx

For professional investors only. Not for retail clients

An inflection point in sustainable investing

More pressures, more data, more action



Source: UN PRI, EuroSIF, GRI, NYSE, Financial Times, IMF, Thomson Reuters, Schroders.

Companies do not operate in a vacuum

How companies make money is as important as how much they made

Companies **contribute to society** and **impose costs** on it, neither of which have been reflected in their financial statements.

Those **social deficits** and **credits** are becoming real financial impacts as regulator and social pressure grows

Source: Schroders.

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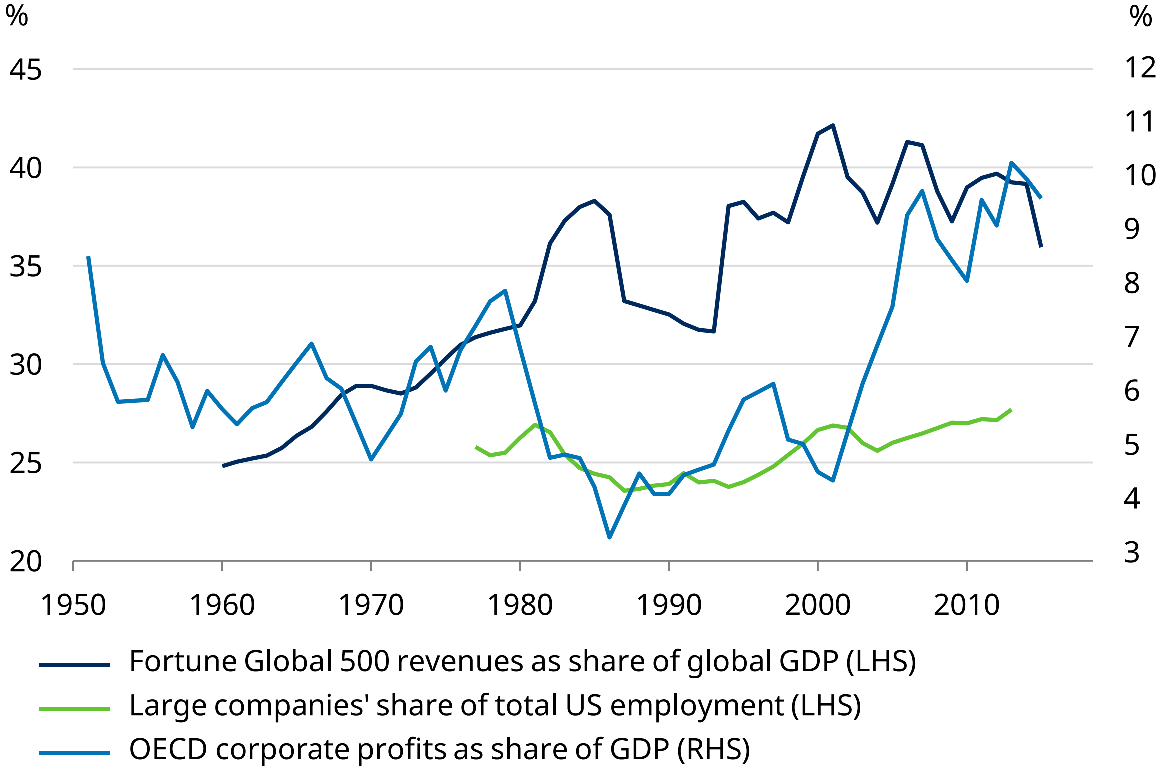
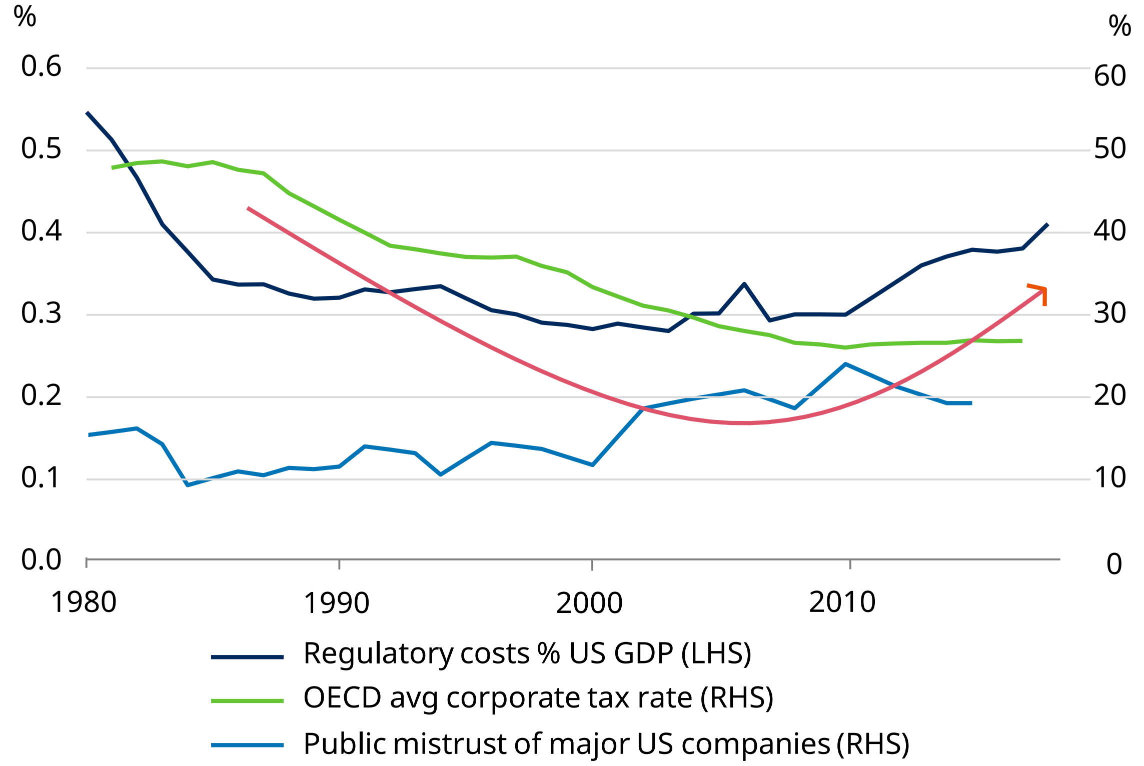
Social impacts are becoming financial costs

As their role has expanded, large businesses face growing pressures

Large companies have become 20–30% more important to economies and societies over last 20y



Growing pressures to contribute to societies; irresponsible behaviour is becoming a liability



Source: Fortune, IMF, OECD, BEA, Gulling et al., OECD tax database, General Social Survey, American Action Forum, Heritage Foundation, Schroders calculations and estimates. Note: data from Fortune is not available prior to the 1990s; we have estimated the equivalent values, using data from Thomson Reuters. Data is the latest available as of January 2019.

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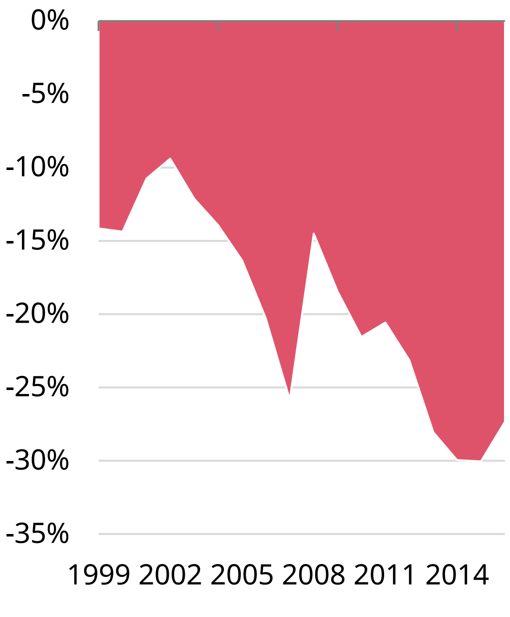
Corporate impacts are increasingly important to investors

Bigger risks, divergent profitability, investment challenges and insight potential

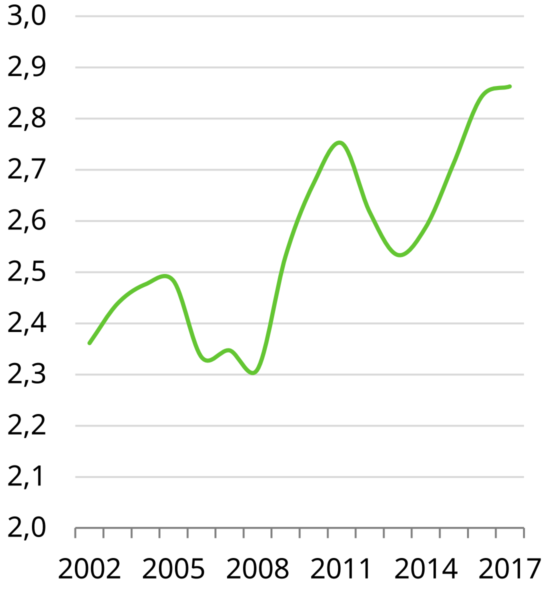
Growing challenges

Corporate externalities (our analysis), as % mkt cap.



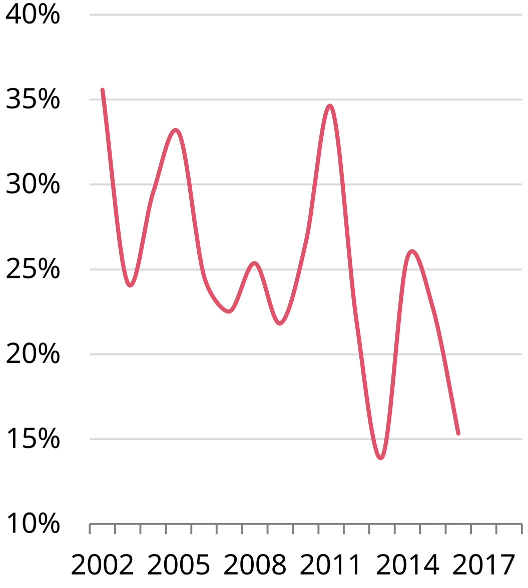
Corporate bifurcation

ROIC dispersion (1st minus 4th quartile avg. ROIC/average ROIC)



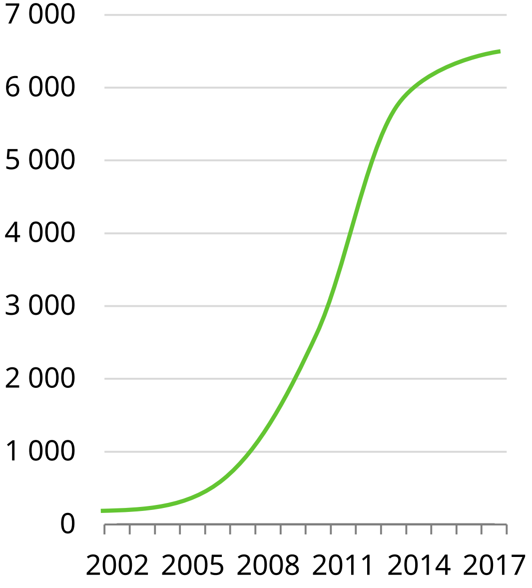
Equity market inefficiencies

Stock returns from correctly forecasting earnings one year ahead



More analysis becoming possible

Sustainability reports published annually



Social externalities are becoming financial costs

Source: Thomson Reuters, GRI, Schroders.

Developing our own measure of social impact

A systematic process to develop and refine robust company analysis

1. Identify impacts

Extensive analysis of academic research, industry analysis, NGO reports and our own perspectives

2. Define measurement process

>400 academic studies collated to examine costs Measurement defined systematically using three approaches

3. Determine stability of the analysis

Identify the most robust measures to include in firmwide analysis

4. Implement across global universe

Analytical logic reflected in robust coding platform; results shared across Schroders

5. Integration into investment decisions

Systematic integration (e.g. SMFE); universe definition (e.g. European sustainable equities); Idea generation (e.g. global equities); Portfolio measurement

Ongoing development to refine and strengthen the analysis

Source: Schroders.

Schroders

Identify impacts across the spectrum of stakeholders

Wide range of business activities with measurable social costs or benefits

Source: Schroders. Labels combine multiple impacts to improve legibility.

Rigorous bottom up analysis is vital

Social impacts can be quantified

Over **400** academic and industry studies of social impacts and externalities

Over **70** data points for each company, estimated where not disclosed e.g. wages, taxes

~9k
large global companies examined

Combining academic analysis and objective company data

Source: Schroders as at Schroders SustainEx research published April 2019.

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Translating social cost to company exposure

Alcohol example

Identify impacts

Alcohol consumption results in significant health and indirect social costs

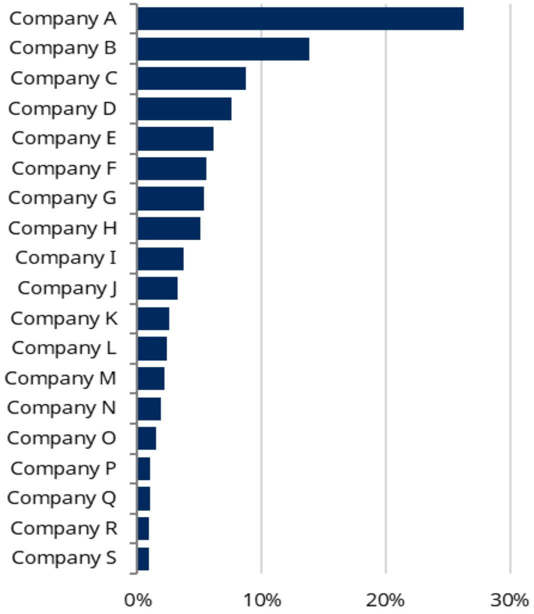
Definition and assumptions

Estimate annual global social burden of alcohol use

17 academic studies examined

Calculation

Estimate share of global alcohol sales for each company using reported data. Multiply by global cost estimate



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Objective analysis based on company data, inferred estimates and transparent assumptions

Source: Schroders.

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Translating social cost to company exposure

Carbon emissions example

Identify impacts

The evidence linking GHG emissions to temperature rises is clear. We expect carbon prices to rise in the future to drive decarbonisation on the required scale.

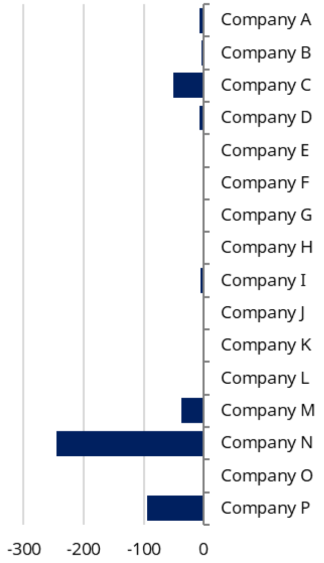
Definition and assumptions

Estimate the global social cost per tonne of carbon emissions

13 academic studies examined.

Calculation

Impact of every company calculated based on its direct carbon emissions and a consistent global social cost of carbon



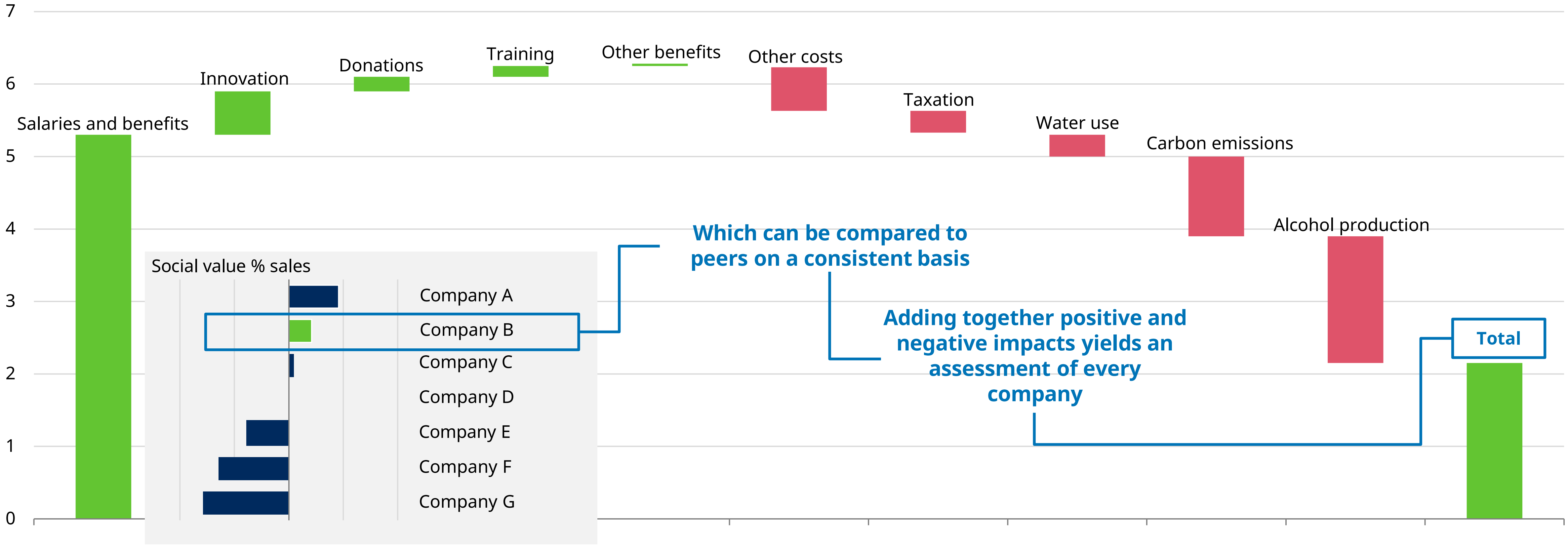
Objective analysis based on company data, inferred estimates and transparent assumptions

Source: Schroders.

Bringing the analysis together

A consistent approach across global companies

Social impact as % sales



Source: Schroders, Asset4, Worldscope. Categories shown are for illustrative purposes only and do not reflect any recommendation to buy/sell any security.

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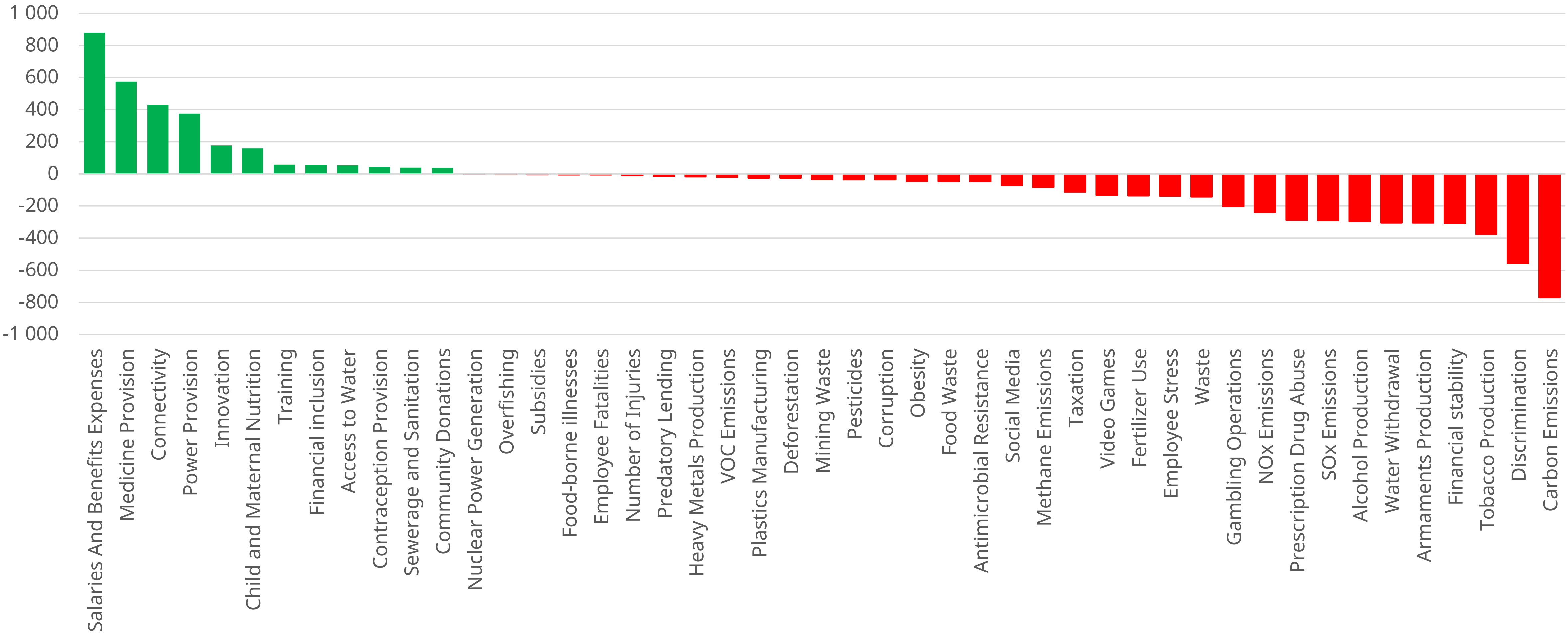
Analysis spans a wide range of positive & negative impacts

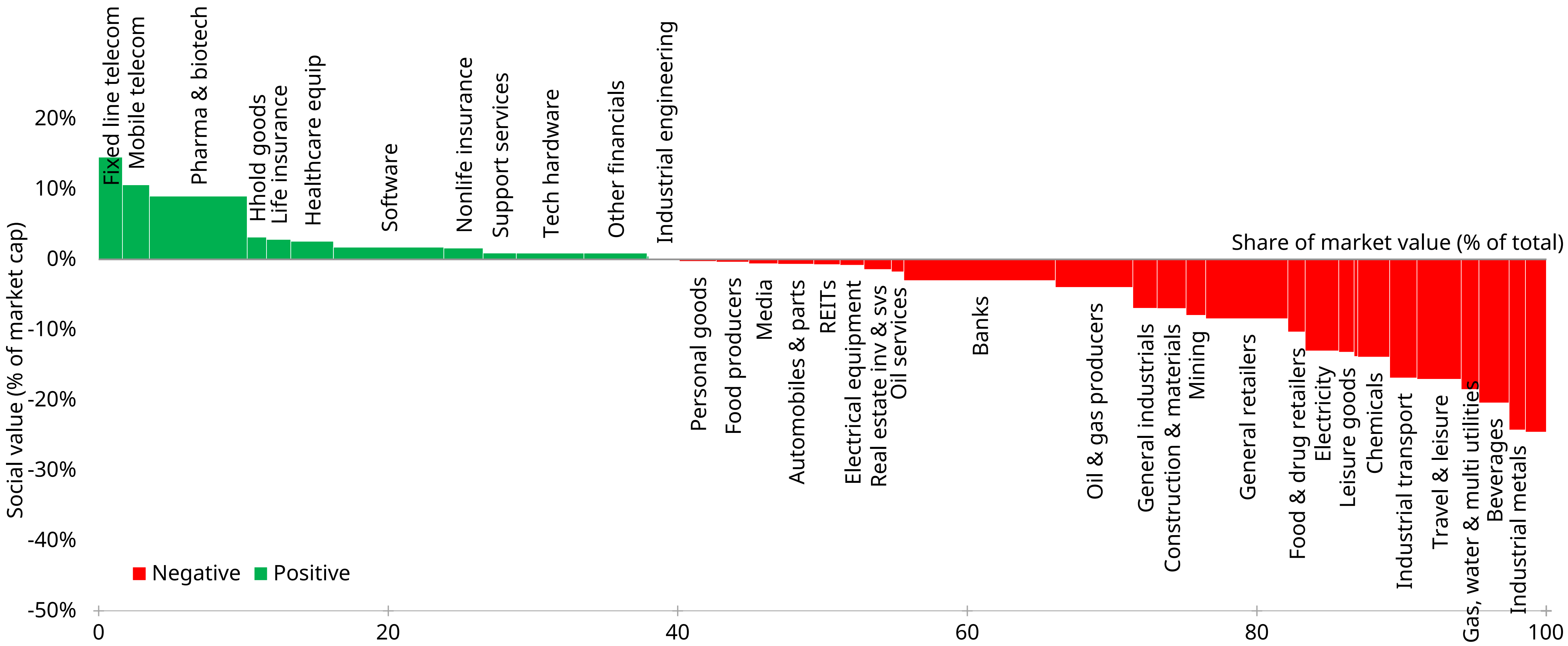
Net impact of each measure examined, US$bn



Source: Schroders. December 2018. Based on analysis of c9,000 global companies

Positive and negative impacts across sectors

Sector level summary of impacts across global sectors



Source: Schroders. December 2018. Based on analysis of c9,000 global companies, aggregated to ICB industries.

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Context

CONTEXT by numbers

What is CONTEXT?

Themes 735 global ESG trends for 47 sub-sectors

Metrics ~260 data points from ~80 sources

Companies 11,000+ companies covered

Time Several years in the making

~Conventional data sources

THOMSON REUTERS

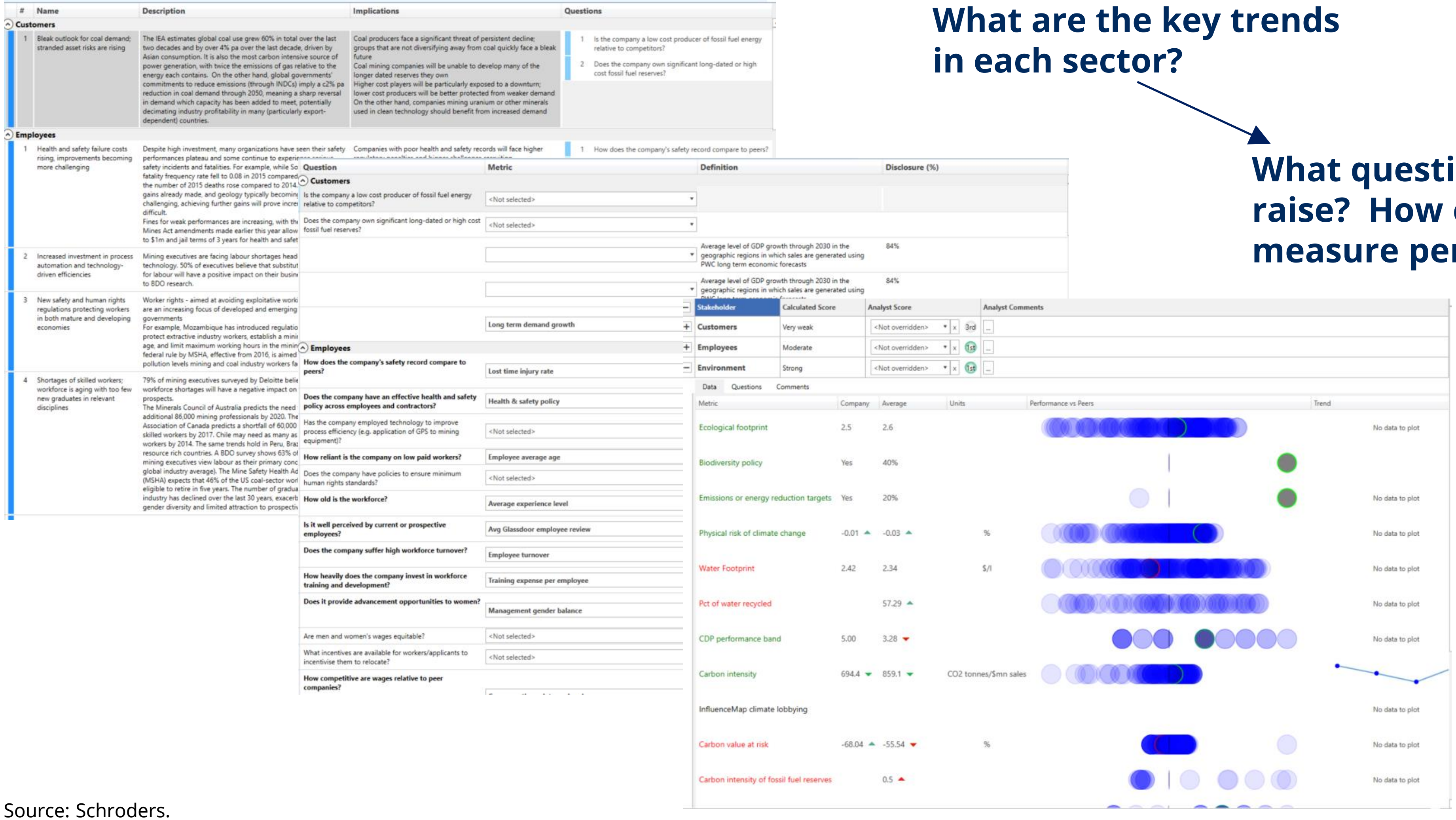
~Unconventional data sources

Resource Centre
Trustpilot
ENERGY STAR
AQR
AIRLINE QUALITY
RASFF
WorldLII

Source: Schroders. August 2019.

CONTEXT: structured around questions

Screenshot examples



What are the key trends in each sector?

What questions do they raise? How can we measure performance?

What conclusions do analysts reach?

Source: Schroders.

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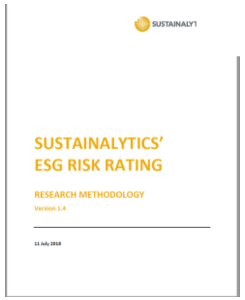
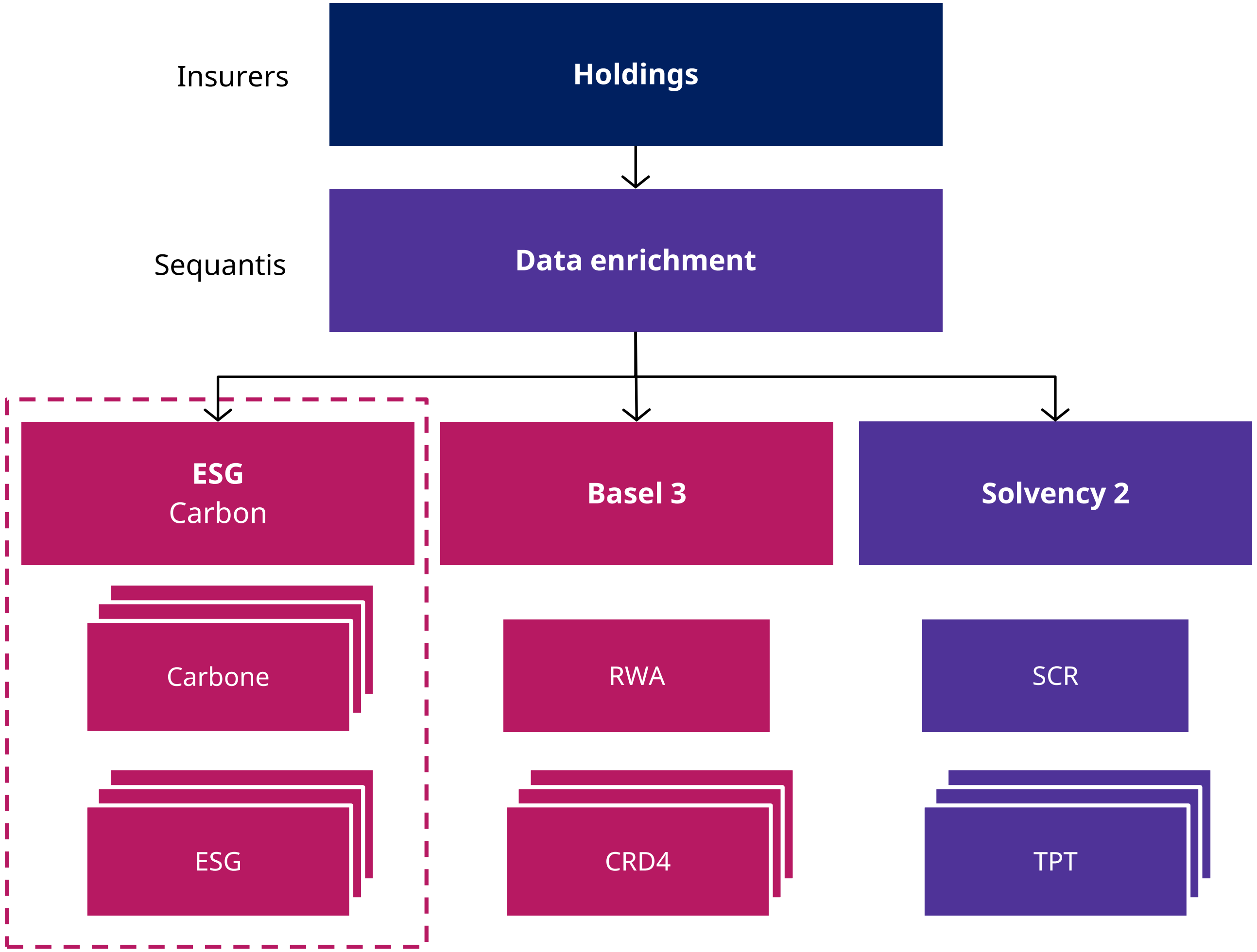
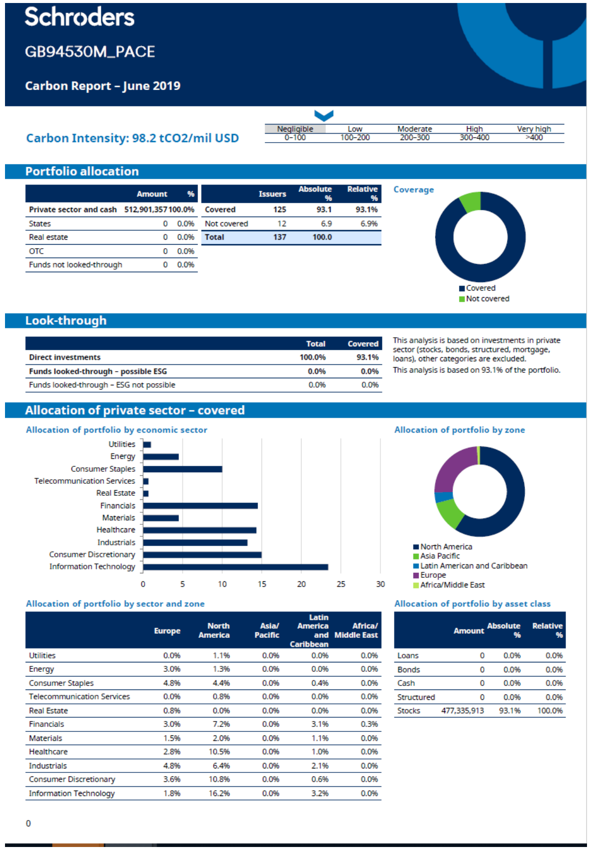
ESG screening of a balance sheet

ESG Risks/Carbon reportings with Sustainalytics/Sequantis







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GB94530M_PACE

Carbon Report – June 2019

Carbon Intensity: 98.2 tCO2/mil USD

Negligible	Low	Moderate	High	Very high
0–100	100–200	200–300	300–400	>400

Portfolio allocation

	Amount	%
Private sector and cash	**512,901,357**	**100.0%**
States	0	0.0%
Real estate	0	0.0%
OTC	0	0.0%
Funds not looked-through	0	0.0%

	Issuers	Absolute %	Relative %
Covered	125	93.1	93.1%
Not covered	12	6.9	6.9%
Total	**137**	**100.0**	

Coverage

Look-through

	Total	Covered
Direct investments	**100.0%**	**93.1%**
Funds looked-through – possible ESG	**0.0%**	**0.0%**
Funds looked-through – ESG not possible	0.0%	0.0%

This analysis is based on investments in private sector (stocks, bonds, structured, mortgage, loans), other categories are excluded.

This analysis is based on 93.1% of the portfolio.

Allocation of private sector – covered

Allocation of portfolio by economic sector

Allocation of portfolio by zone

Allocation of portfolio by sector and zone

	Europe	North America	Asia/ Pacific	Latin America and Caribbean	Africa/ Middle East
Utilities	0.0%	1.1%	0.0%	0.0%	0.0%
Energy	3.0%	1.3%	0.0%	0.0%	0.0%
Consumer Staples	4.8%	4.4%	0.0%	0.4%	0.0%
Telecommunication Services	0.0%	0.8%	0.0%	0.0%	0.0%
Real Estate	0.8%	0.0%	0.0%	0.0%	0.0%
Financials	3.0%	7.2%	0.0%	3.1%	0.3%
Materials	1.5%	2.0%	0.0%	1.1%	0.0%
Healthcare	2.8%	10.5%	0.0%	1.0%	0.0%
Industrials	4.8%	6.4%	0.0%	2.1%	0.0%
Consumer Discretionary	3.6%	10.8%	0.0%	0.6%	0.0%
Information Technology	1.8%	16.2%	0.0%	3.2%	0.0%

Allocation of portfolio by asset class

	Amount	Absolute %	Relative %
Loans	0	0.0%	0.0%
Bonds	0	0.0%	0.0%
Cash	0	0.0%	0.0%
Structured	0	0.0%	0.0%
Stocks	477,335,913	93.1%	100.0%

0

ESG screening of a balance sheet

ESG/Carbon reportings with Sustainalytics/Sequantis

ESG risk rating of the balance sheet: 20.5/100

		Negligible	Low	Moderate	High	Very high
		0–10	10–20	20–30	30–40	>40
Environment	3.2					
Social	4.7					
Governance	16.5					

ESG risk rating of the benchmark: 24.1/100

		Negligible	Low	Moderate	High	Very high
		0–10	10–20	20–30	30–40	>40
Environment	4.0					
Social	5.7					
Governance	14.3					

Factors breakdown

	Utilities	Energy	Consumer staples	Telecomm-unication services	Real estate	Financials	Healthcare	Industrials	Consumer discretionary	Information technology
Carbon – own operations	0.39	0.17	0.12	0.15	0.00	0.00	0.00	0.05	0.08	0.01
Carbon – products and services	0.00	0.25	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Emissions, effluents and waste	0.51	0.31	0.02	0.00	0.00	0.00	0.07	0.04	0.06	0.00
Land use and biodiversity	0.08	0.02	0.00	0.00	0.00	0.00	0.00	0.00	0.03	0.00
Land use and biodiversity – supply chain	0.00	0.00	0.04	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Resource use	0.39	0.05	0.08	0.00	0.00	0.00	0.00	0.04	0.05	0.00
Resource use – supply chain	0.00	0.00	0.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00
E&S impact of products and services	0.00	0.00	0.22	0.00	0.00	0.00	0.00	0.08	0.02	0.00
Access to basic services	0.00	0.00	0.00	0.00	0.00	0.00	0.15	0.00	0.00	0.00
Community relations	0.47	0.12	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Human capital	0.20	0.11	0.39	0.25	0.15	1.08	0.18	0.00	0.17	0.08
Human rights	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Human rights – supply chain	0.00	0.00	0.37	0.09	0.00	0.00	0.00	0.00	0.01	0.02
Occupational health and safety	0.41	0.15	0.07	0.00	0.00	0.00	0.07	0.02	0.00	0.00
Corporate governance	0.73	0.18	0.34	0.37	0.20	1.59	0.19	0.08	0.25	0.07
Bribery and corruption	0.00	0.14	0.00	0.00	0.00	0.00	0.11	0.00	0.00	0.00
Business ethics	0.43	0.08	0.38	0.24	0.09	2.61	0.24	0.03	0.11	0.10
Data privacy and security	0.00	0.00	0.04	0.31	0.00	1.55	0.00	0.00	0.15	0.08
ESG integration – financials	0.00	0.00	0.00	0.00	0.16	1.42	0.00	0.00	0.00	0.00
Product governance	0.41	0.00	0.27	0.32	0.15	1.73	0.57	0.03	0.21	0.02
Resilience	0.00	0.00	0.00	0.00	0.00	0.52	0.00	0.00	0.00	0.00

Carbon intensity report

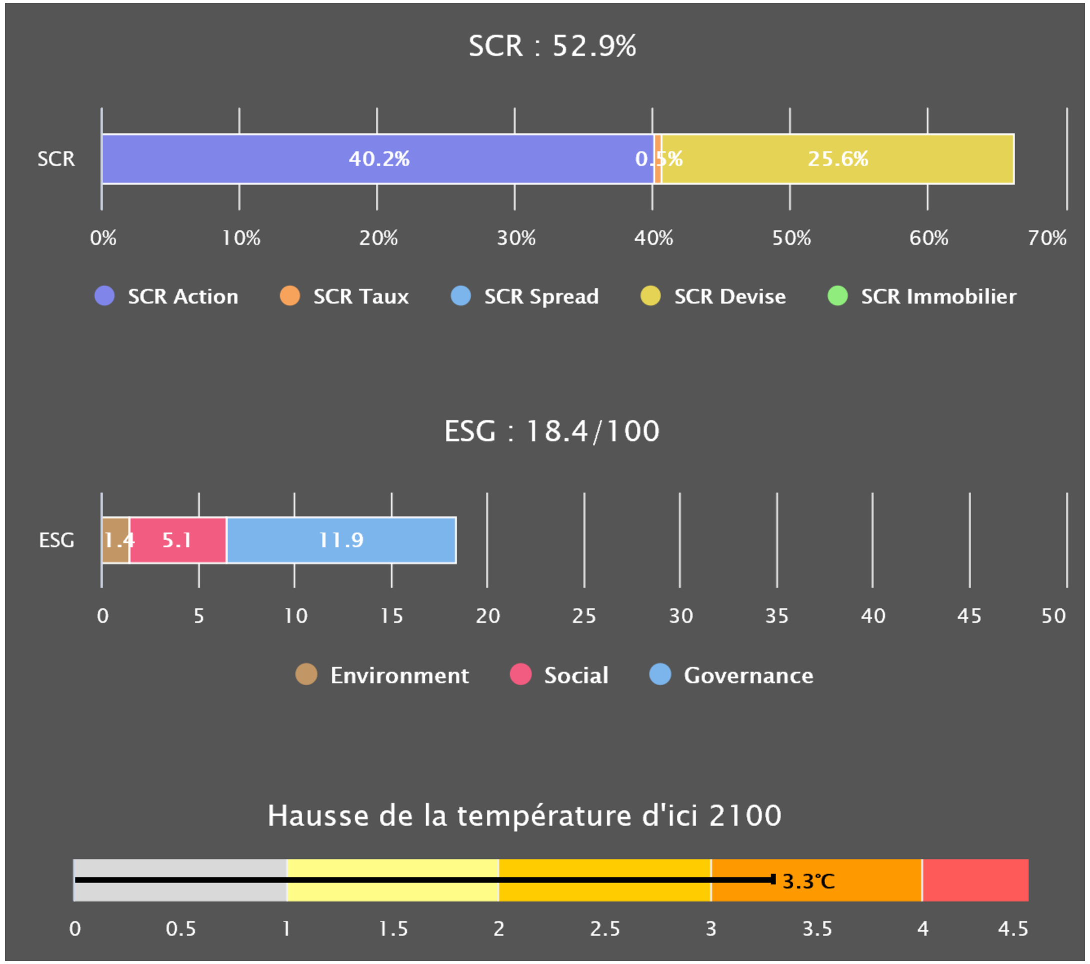
The carbon intensity report shows ton CO2/per million USD. To calculate it, we take total sales of all companies in portfolio. Then we looked up the carbon emissions the company has made in the year. From this we get the tons per US$1m revenue.

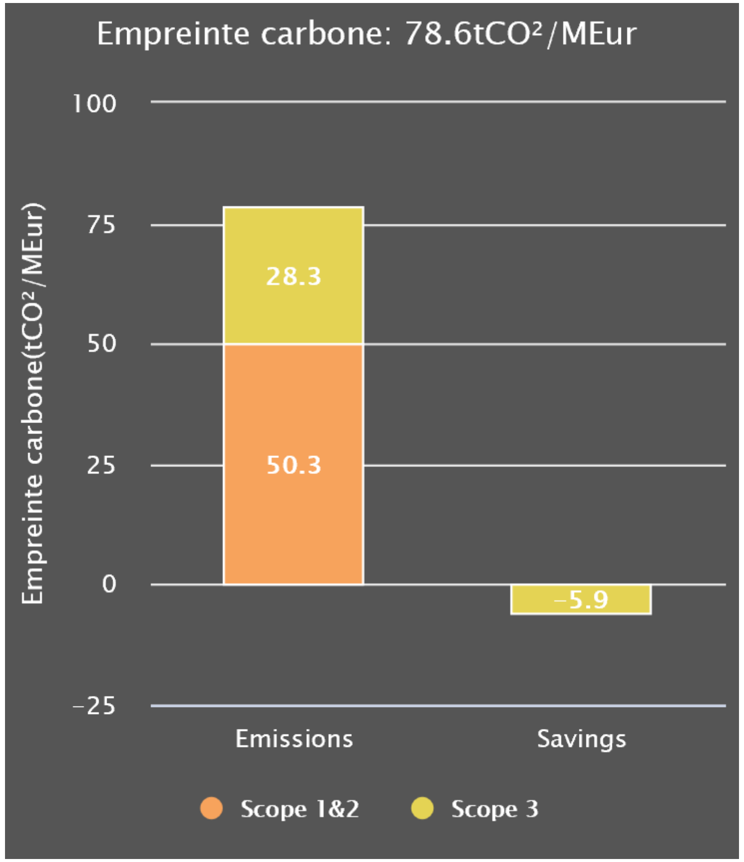
– The carbon intensity score for the balance sheet is 218.1 ton CO2/million USD
– The carbon intensity score for an Iboxx European Corporate bond benchmark is 172.1

The score can be improved by the companies improving their carbon intensity score which will translate into the portfolios overall score or by reducing the allocation to the companies.

ESG reporting with Sustainalytics & Carbon metrics

To compare yourself with your





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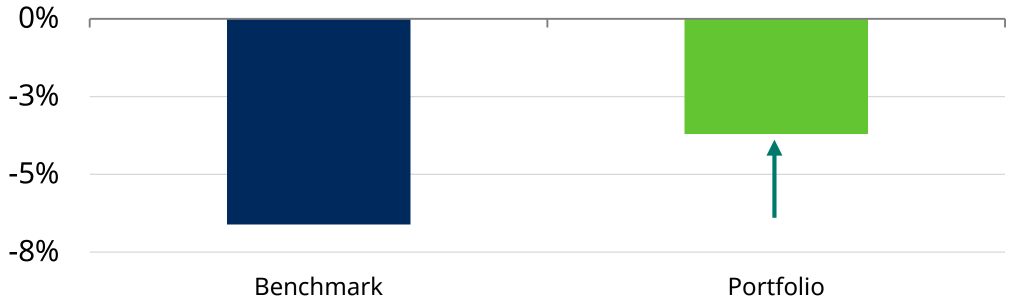
ESG reporting with Schroders metrics

To understand better your ESG risks

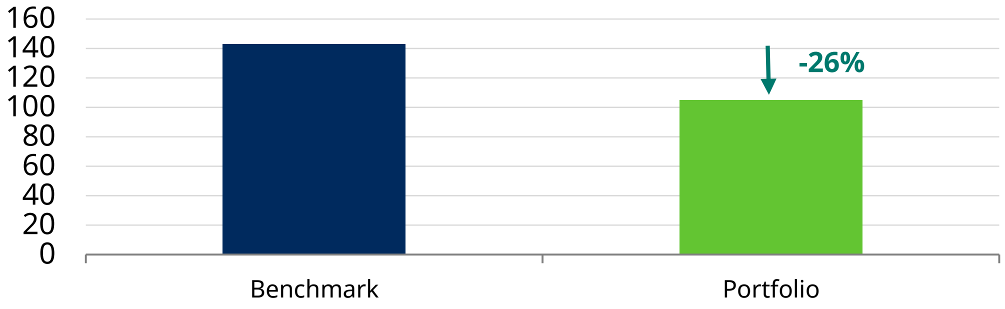
Superior Sustainability Profile

Sustainability Scores

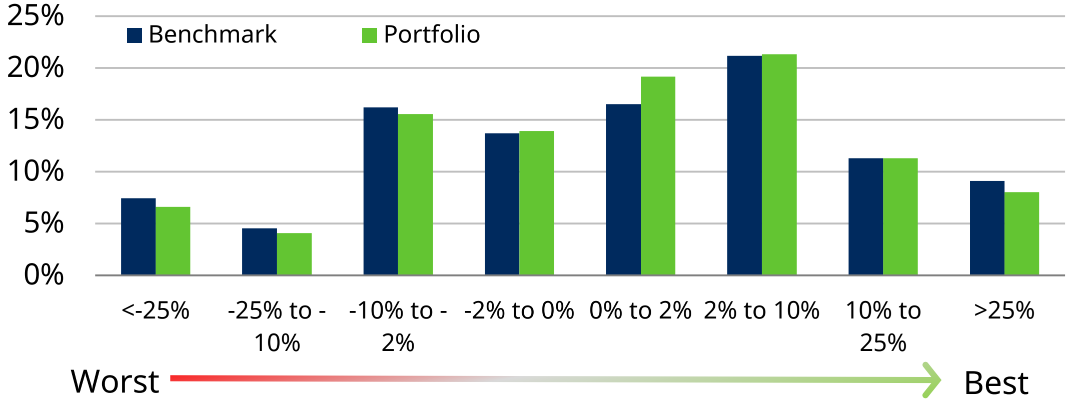


Carbon Profile

Carbon Intensity[2]



Portfolio breakdown by Sustainability scores[1]



Coverage

Portfolio: 62%
Benchmark: 77%

Source: Schroders, as at 30 September 2020. [1] Sustainability score is based on our proprietary tool, SustainEx. SustainEx is a robust, objective framework to measure the social and environmental costs companies impose, or the benefits they provide, which are not currently recognised as financial costs or benefits. [2] Carbon intensity represents Scope 1&2 emissions relative to each $1mn of sales.

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Example of a Managed Portfolio

ESG Investment Risk Analysis

Schroders
powered by Data Enablement

Overview | **Mandate View**

Investment Divsion: MA | Investment Team: Multiple values | Mandate Code and Name: All | Better Performance in Number of Metrics: All

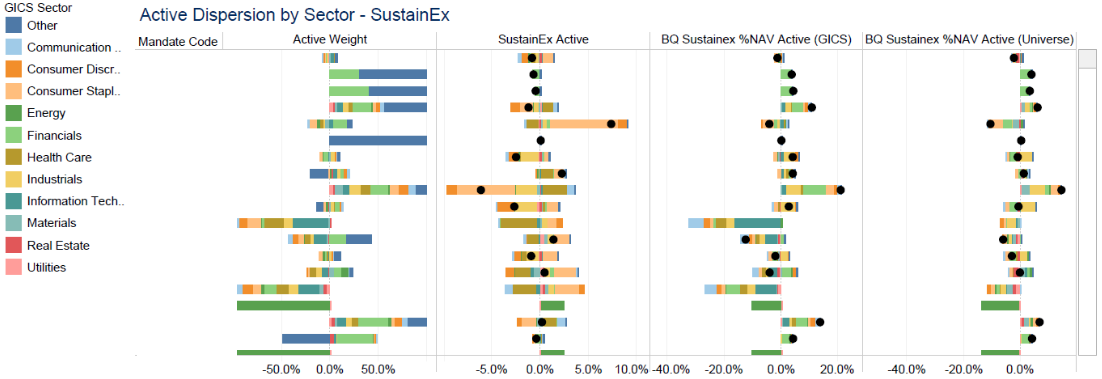
As at 31/08/2020

Investment Team: Multi Asset Risk Controlled Growth

Benchmark Name	SustainEx Coverage	SustainEx Mandate	SustainEx Bmk	SustainEx Active	SustainEx GICS BQ Active	SustainEx BQ Active	CarbonVaR Coverage	CarbonVaR Active	CarbonVaR BQ Active	MSCI CO2 Coverage	MSCI CO2 Active	MSCI ESG Coverage	MSCI ESG Active	MSCI ESG <=B Active	MSCI Rating Mandate	MSCI Rating Bmk
No Designated Benchmark	3.6%	-0.8%		-0.8%	3.6%	3.6%	3.6%	-0.1%	0.0%	4.3%	0	4.3%	5.1	0.0%	BBB	
No Designated Benchmark	5.8%	-0.5%		-0.5%	4.2%	3.0%	5.8%	-0.1%	0.0%	7.2%	0	82.0%	5.9	0.0%	A	
MSCI All Country World Index (..	54.2%	0.5%	-0.8%	1.3%	-12.6%	-6.3%	54.1%	3.4%	-4.8%	65.1%	-87	71.9%	-0.3	-1.1%	A	A
No Designated Benchmark	55.1%	0.1%		0.1%	13.6%	6.5%	55.0%	-4.0%	7.3%	57.2%	85	84.6%	5.7	6.7%	A	
ICE LIBOR - 3 Month (GBP)	10.2%	-0.5%		-0.5%	4.1%	3.8%	10.1%	-1.0%	2.0%	23.8%	16	29.3%	5.5	2.1%	BBB	
No Designated Benchmark	93.8%	6.4%		6.4%	18.1%	5.2%	93.8%	-3.1%	2.7%	93.8%	41	93.8%	6.4	5.9%	A	
ICE LIBOR - 3 Month (GBP)	50.3%	1.2%		1.2%	13.4%	5.5%	50.3%	-3.1%	4.9%	55.0%	69	90.3%	6.1	4.0%	A	
No Designated Benchmark	54.0%	0.5%		0.5%	14.2%	6.0%	53.9%	-3.4%	6.0%	64.8%	70	71.7%	5.8	5.6%	A	
60% MSCI The World Index, 4..			-2.9%	2.9%	-30.6%	-15.2%		7.2%	-12.0%	3.4%	-206	56.2%	0.1	-6.8%	A	A
No Designated Benchmark	69.5%	-2.5%		-2.5%	20.4%	10.0%	69.5%	-4.3%	7.0%	72.6%	118	87.8%	5.7	6.3%	A	
No Designated Benchmark	96.2%	2.6%		2.6%	19.0%	14.8%	96.2%	-5.5%	10.6%	95.5%	117	92.0%	5.5	11.8%	BBB	
No Designated Benchmark	58.1%	-0.5%		-0.5%	16.1%	6.0%	58.1%	-3.9%	7.5%	74.9%	99	92.5%	6.4	4.3%	A	
No Designated Benchmark	54.7%	-0.5%		-0.5%	15.1%	5.6%	54.7%	-3.7%	7.0%	70.8%	90	93.3%	6.4	4.0%	A	
No Designated Benchmark	41.3%	0.5%		0.5%	10.4%	4.4%	41.2%	-2.7%	4.8%	50.1%	54	87.2%	6.5	5.0%	A	
MSCI The World Index (USD)	95.5%	3.0%	-0.9%	3.9%	-8.5%	2.3%	95.5%	1.2%	0.5%	94.7%	-31	91.8%	-0.6	5.6%	BBB	A
No Designated Benchmark	46.6%	-1.0%		-1.0%	12.2%	4.8%	46.6%	-3.1%	5.0%	53.3%	64	91.3%	6.2	4.7%	A	
ICE LIBOR - 6 Month (USD)	47.3%	-0.6%		-0.6%	11.9%	5.0%	47.3%	-2.9%	4.9%	57.6%	72	81.1%	6.2	3.9%	A	
No Designated Benchmark	49.5%	-0.6%		-0.6%	12.0%	6.3%	49.4%	-3.9%	7.3%	52.6%	86	84.3%	5.8	6.8%	A	
60% MSCI World, 40% BARCL..			-2.9%	2.9%	-30.6%	-15.2%		7.2%	-12.0%	3.4%	-206	3.4%	-0.8	-6.8%	BBB	A

Select Metric: SustainEx

Mandate: All **Benchmark:** All **GICS Sector:** All



Top and Bottom 10 SustainEx Active Positions

Issuer	GICS Industry Group	Mandate Weight	Bmk Weight	SV/Sales	SustainEx Active
British American Toba..	Food, Beverage & To..	50.4%	146.8%	-273.0%	263.2%
Diageo PLC	Food, Beverage & To..	36.5%	141.7%	-106.0%	111.5%
Flutter Entertainment ..	Consumer Services	1.6%	53.0%	-177.6%	91.4%
GVC Holdings PLC	Consumer Services	0.5%	11.4%	-187.8%	20.5%
Anheuser-Busch InBe..	Food, Beverage & To..	6.6%	26.4%	-100.3%	19.8%
Segro PLC	Real Estate	8.2%	86.2%	-22.7%	17.7%
Imperial Brands Finan..	Food, Beverage & To..	4.1%	11.7%	-190.2%	14.5%
BAE Systems PLC	Capital Goods	27.9%	44.6%	-83.7%	14.0%
HSBC Holdings PLC	Banks	70.7%	220.3%	-8.3%	12.4%
Imperial Brands PLC	Food, Beverage & To..	25.8%	32.2%	-190.2%	12.1%

Issuer	GICS Industry Group	Mandate Weight	Bmk Weight	SV/Sales	SustainEx Active
AstraZeneca PLC	Pharmaceuticals, Bio..	116.7%	271.5%	36.0%	-55.8%
Reckitt Benckiser Gro..	Household & Person..	33.8%	118.9%	35.1%	-29.9%
Vodafone Group PLC	Telecommunication ..	34.3%	95.8%	27.1%	-16.7%
GlaxoSmithKline PLC	Pharmaceuticals, Bio..	117.3%	184.4%	22.7%	-15.3%
Swedish Match AB	Food, Beverage & To..	7.4%	2.9%	-237.1%	-10.7%
BAT Capital Corp	Food, Beverage & To..	7.7%	4.0%	-273.0%	-10.0%
Severn Trent PLC	Utilities	0.2%	13.9%	66.1%	-9.1%
United Utilities Group ..	Utilities	0.2%	14.4%	61.5%	-8.8%
G4S PLC	Commercial & Profes..	24.1%	5.8%	-44.8%	-8.2%
Novartis AG	Pharmaceuticals, Bio..	17.1%	42.8%	31.6%	-8.1%

Top and Bottom 10 SustainEx Score

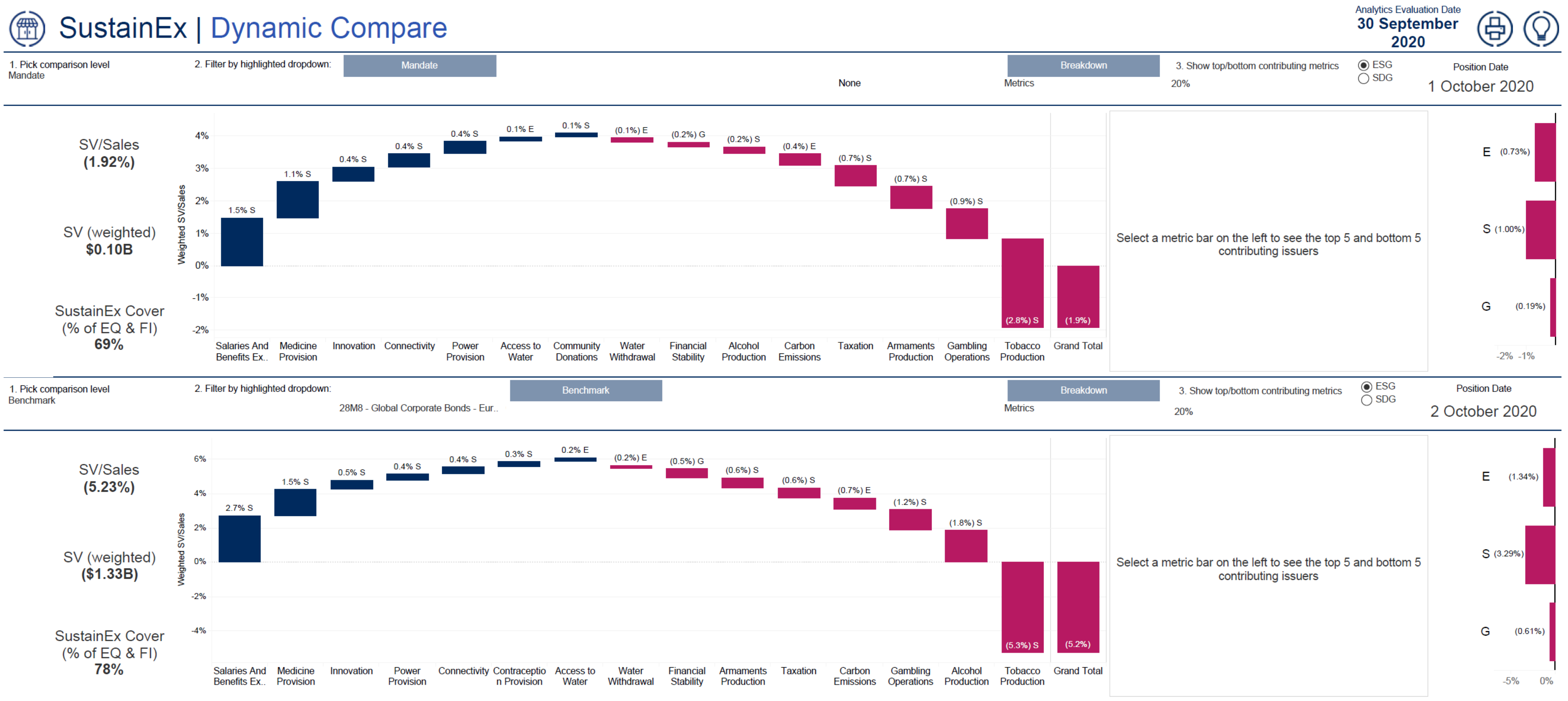
Issuer	GICS Industry Group	Mandate Weight	Bmk Weight	SV/Sales
Intra-Cellular Therapi..	Pharmaceuticals, Bio..	0.0%		21062.1%
Global Blood Therape..	Pharmaceuticals, Bio..	0.2%		1630.9%
Moderna Inc	Pharmaceuticals, Bio..	0.1%	0.2%	176.9%
Richter Gedeon Nyrt	Pharmaceuticals, Bio..	0.7%	0.1%	135.5%
Novavax Inc	Pharmaceuticals, Bio..	0.3%		134.4%
Dicerna Pharmaceutic..	Pharmaceuticals, Bio..	0.4%		108.7%
Veolia Environnement..	Utilities	3.5%	1.0%	94.0%
Megacable Holdings ..	Media & Entertainme..	0.0%	0.0%	87.5%
Alnylam Pharmaceuti..	Pharmaceuticals, Bio..	0.0%	0.0%	80.7%
Gentera SAB de CV	Diversified Financials	0.0%		78.4%

Issuer	GICS Industry Group	Mandate Weight	Bmk Weight	SV/Sales
Philip Morris Internati..	Food, Beverage & To..	19.6%	7.6%	-280.3%
Gudang Garam Tbk PT	Food, Beverage & To..	0.1%	0.1%	-276.7%
British American Toba..	Food, Beverage & To..	0.0%		-274.6%
Hanjaya Mandala Sa..	Food, Beverage & To..	0.1%	0.1%	-274.1%
BAT Capital Corp	Food, Beverage & To..	7.7%	0.9%	-273.0%
BAT International Fin..	Food, Beverage & To..	9.9%	3.8%	-273.0%
British American Toba..	Food, Beverage & To..	50.4%	68.2%	-273.0%
Altria Group Inc	Food, Beverage & To..	15.6%	4.6%	-271.3%
Scandinavian Tobacc..	Food, Beverage & To..	0.5%		-240.4%
Japan Tobacco Inc	Food, Beverage & To..	2.5%	1.6%	-237.1%

Source Schroders

ESG reporting with Schroders metrics

Understanding the externalities of your portfolio



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ESG strategy building

Which steps do you need to implement?

1 Screening your current ALM, what is your current situation

1. Identifying ESG raw risk criteria, especially climate and sustainability risks
   - Ecological – electricity consumption, GHG emissions…
   - Social – proportion of female executive…
   - Governance – reporting, executive package…
2. Creating and application of screening tools
3. Running the analysis and aggregating this info with the right indicators, e.g.
   - E – temperature or carbon footprint of the investment portfolio
   - S – employee satisfaction/well being
   - G – transparency rating

2 Defining objectives and timing, e.g.

- E – Reducing the portfolio's temperature from current 4 degrees down to 2 degrees within 10 years
- S – Engaging companies to improve the employees well being (from score A to score B within 15 years)
- G – Eliminating corporate without transparency

3 Implementation

1. Risk assessment: measuring the sensitivity of the portfolio to the objectives and to the ESG risk criteria, especially to Climate
2. Investment process: choosing and applying one or several levels of ESG integration
   - Impact investment (explicit factor)
   - Exclusion (exclusion of tobacco…)
   - Thematic/best in class investment
   - Full ESG integration across the balance sheet
   - Active ownership to transition corporate: voting and engagement
3. Communication/ESG disclosure, reporting
   - Corporate: communicating in coherence with all the above!

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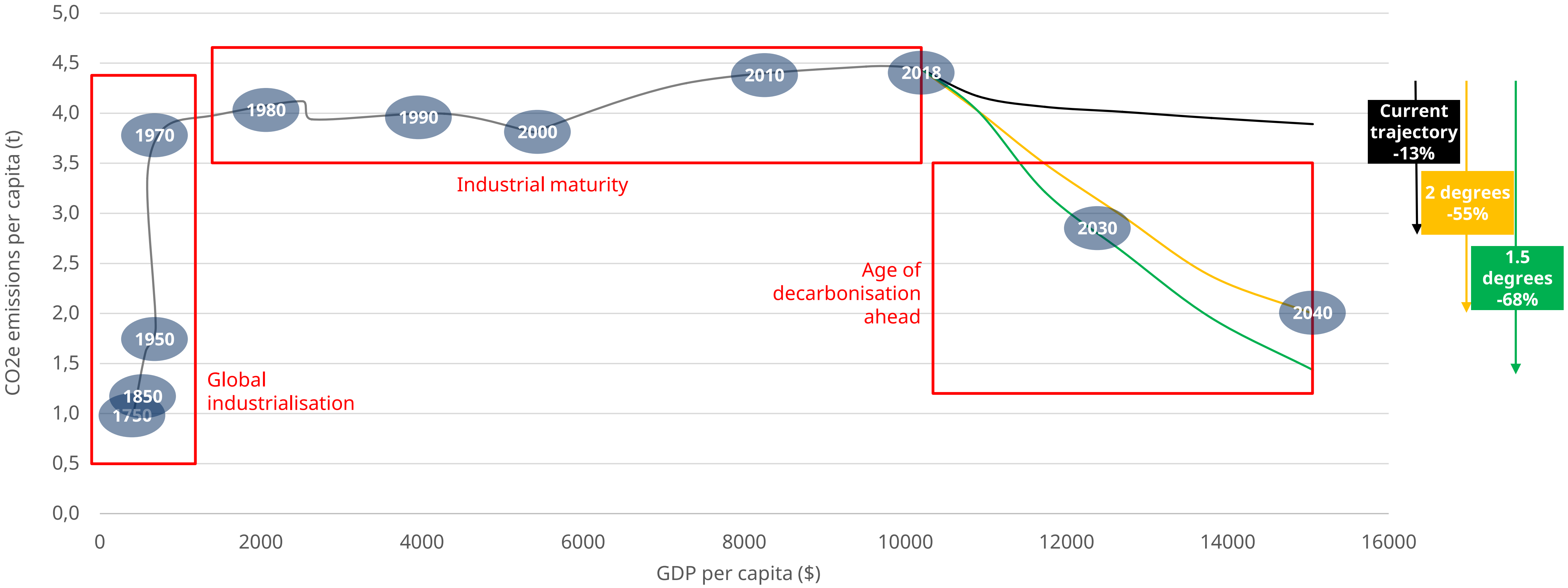
A new era for carbon intensity

Return to pre-industrial emissions with continued economic expansion

Carbon emissions per capita vs. GDP per capita since 1750



Source: BP Statistical Review, Maddison (OECD), UNFCC, IEA, IIPCC, UN Population Division, Schroders

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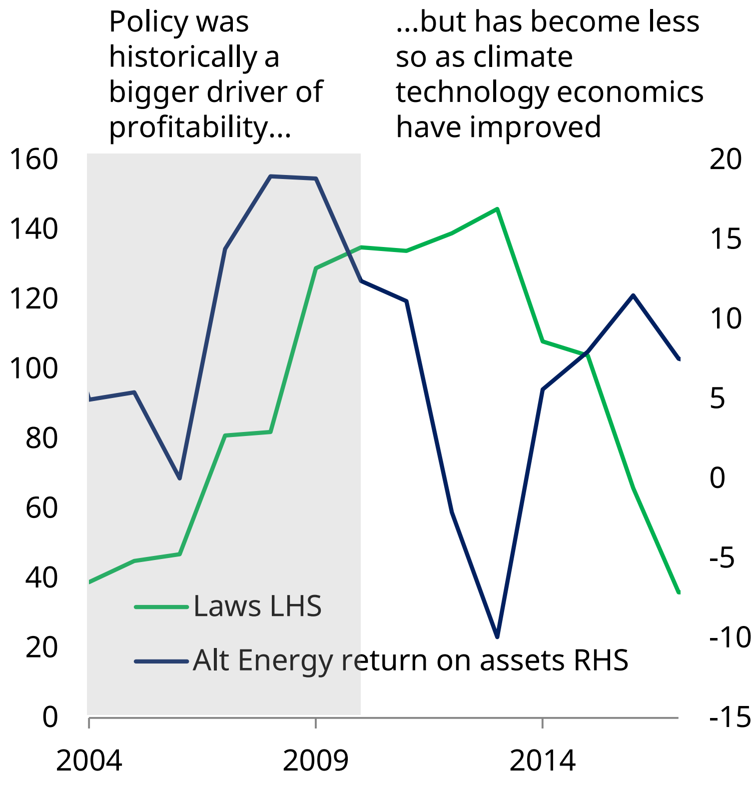
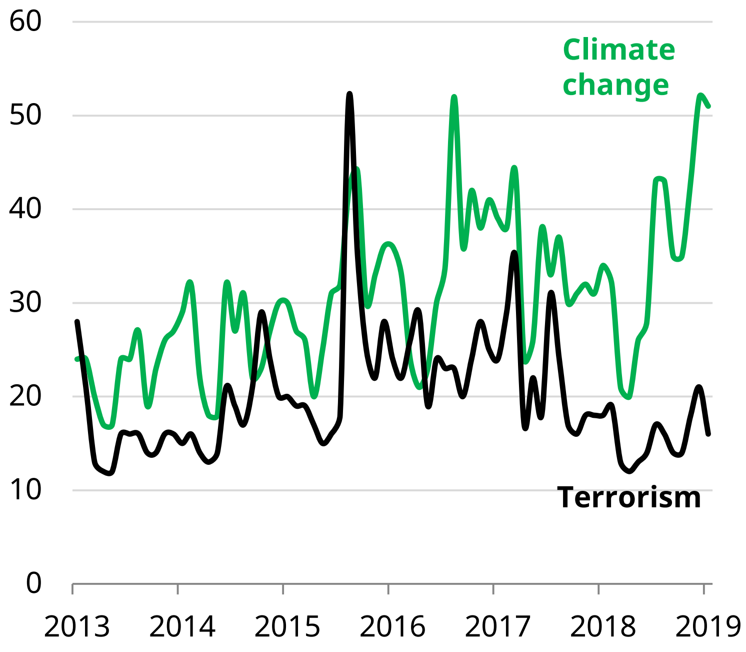
Climate change continues to move up investment agendas

Improving economics, growing awareness, shareholder action

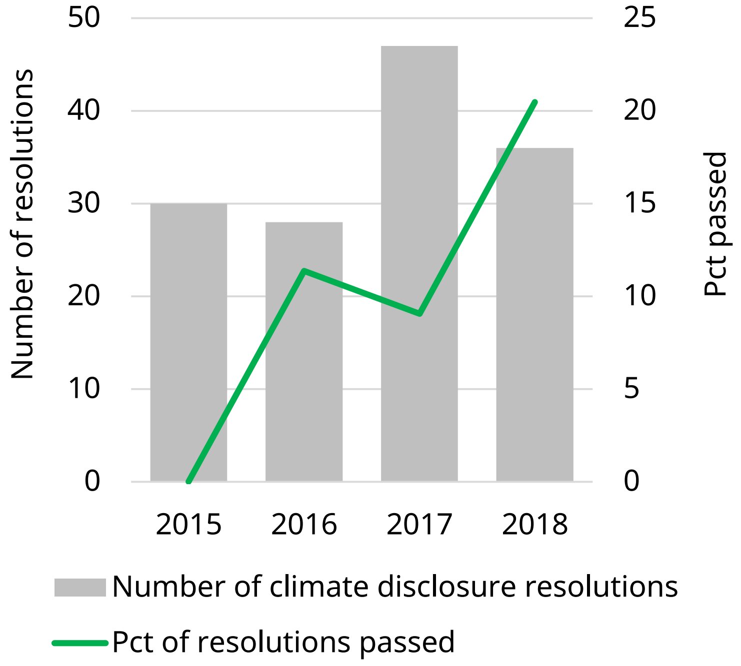
Technology overtaking policy as a driver



Growing social awareness & concern

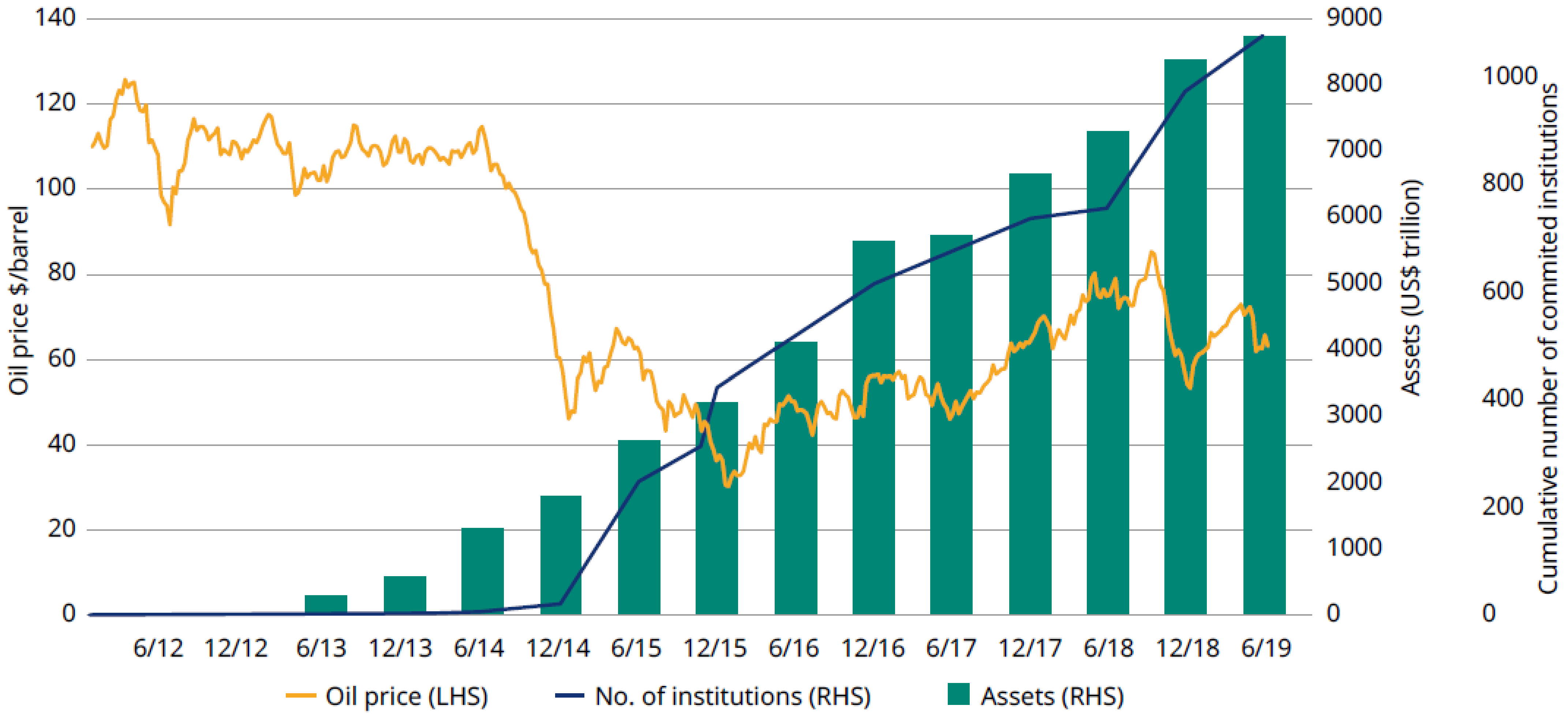


Rising shareholder pressure



Source: Grantham Institute, Thomson Reuters, Google Trends, ProxyInsight, Schroders

Over 1,000 institutions collectively responsible for almost $9 trillion of AUM are committed to some level of fossil fuel divestment



Source: Bloomberg, Go Fossil Free, Arabella Advisors

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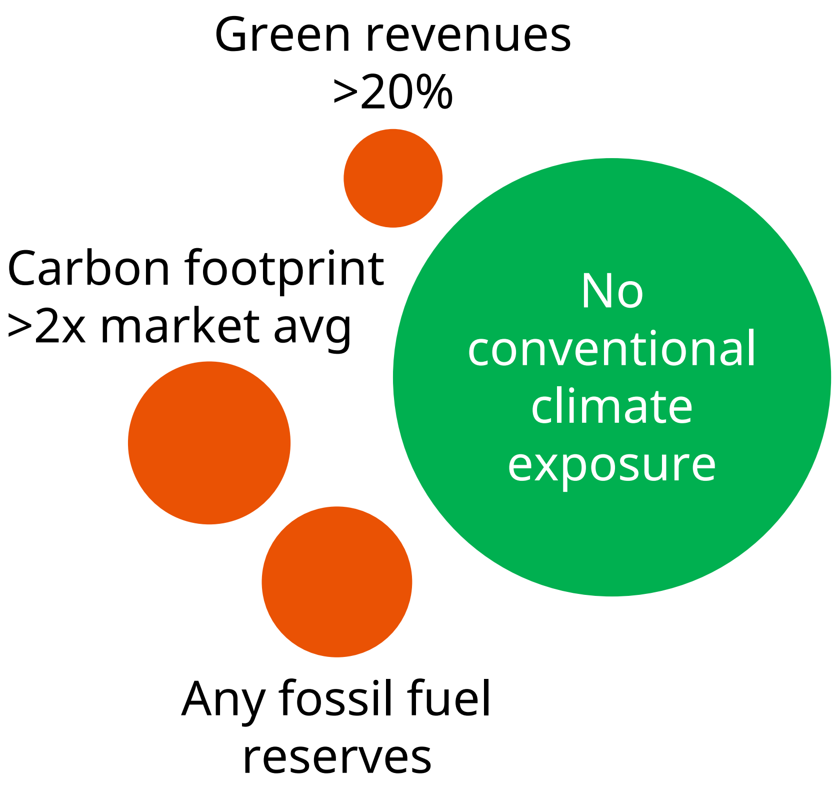
But, the most common climate risk measures are too narrow

<20% of MSCI ACWI captured by typical climate risk measures

Bubble size proportionate to market value captured



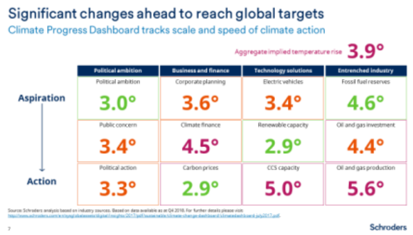
- Every company will be impacted by climate risk to some extent; ~15% of the value of the average company is at risk
- There will be huge opportunities as well as costs; $2tr of investment in climate solutions needed to meet Paris Accord commitments
- Typical climate exposure measures fail to identify many of the most exposed companies
- Many portfolios marketed as climate resilient face bigger risks than investors expect
- We have developed tools to measure the impacts of the major effects of climate change

Source: Schroders using MSCI data. Sizes of bubble represent share of MSCI ACWI (by market cap) caught by common climate risk measurements: Any fossil fuel reserves: 10%, Carbon intensity >twice market level: 11%, Total climate change revenue exposure >20%: 4%, Not caught by any filter: 81%

Separating the question into when and what

Building a climate risk measurement & management toolkit

Climate risk & opportunity

Speed and scale of action to mitigate climate change	Impact of climate action on investments
	
Climate Progress Dashboard tracks pace and scale of climate action	Climate risk analyses (Carbon VAR, Physical risk etc) examine impacts of action on investments & portfolios

Climate risk tools available across investment desks

Source: Schroders

Significant changes ahead to reach global targets

Climate Progress Dashboard tracks scale and speed of climate action

Aggregate implied temperature rise **3.9°**

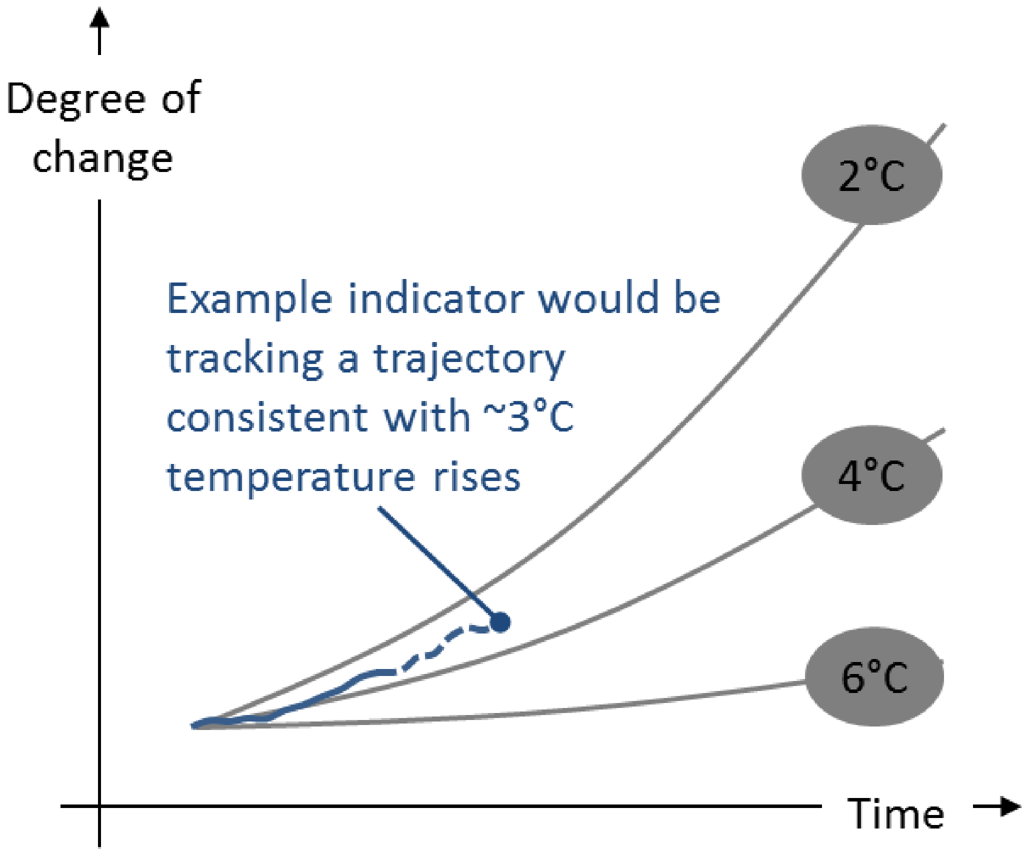
	Political ambition	Business and finance	Technology solutions	Entrenched industry
Aspiration	Political ambition 2.8°	Corporate planning 3.4°	Electric vehicles 3.1°	Oil & gas investment 4.5°
↓	Public concern 3.3°	Climate finance 5.5°	Renewable capacity 2.5°	Fossil fuel reserves 4.9°
Action	Political action 3.0°	Carbon prices 3.3°	CCS[1] capacity 4.9°	Fossil fuel production 5.9°

Source: Schroders analysis based on industry sources. Based on data available as at Q4 2019. For further details please visit: http://www.schroders.com/en/sysglobalassets/digital/insights/2017/pdf/sustainable/climate-change-dashboard/climatedashboard-july2017.pdf [1]Carbon capture storage.

Climate Progress Dashboard

Measuring progress

- The IEA publishes the most comprehensive and widely referenced analyses of emissions scenarios that would lead to different temperature rises
- Those scenarios describe the changes in fossil fuel production, transport electrification, CCS use etc that would be required in combination for each trajectory
- By comparing actual progress to the rate required in each scenario, we can estimate the temperature rise implied by activity in each area, considered in isolation
- By examining progress across a wide range of indicators, we can build a view across the many areas that will need to change in the future
- Differences between indicators highlight inconsistencies in the scale and pace of progress in related markets (eg oil production vs. electric vehicle use)



Source: Schroders

Climate impacts: business & investment risks

Starting with "what will change"

What needs to change?	How will those changes be achieved?	Impact on earnings and valuations?
1 Regulation	E.g. Carbon prices to $100/t	Global cash flows 15–20% lower
2 Technology	E.g. 6% p.a. growth in wind capacity	Positive growth options 25–30% of market cap
3 Fossil fuels	E.g. 35% drop in fossil fuel production	Up to 70% impact on sector valuation
4 Physical risk	E.g. 3% p.a. increase in economic costs	Insurance costs up to 5% of current valuations

Overall risk exposure?

Most portfolios face 10–20% valuation risk under 2° scenario

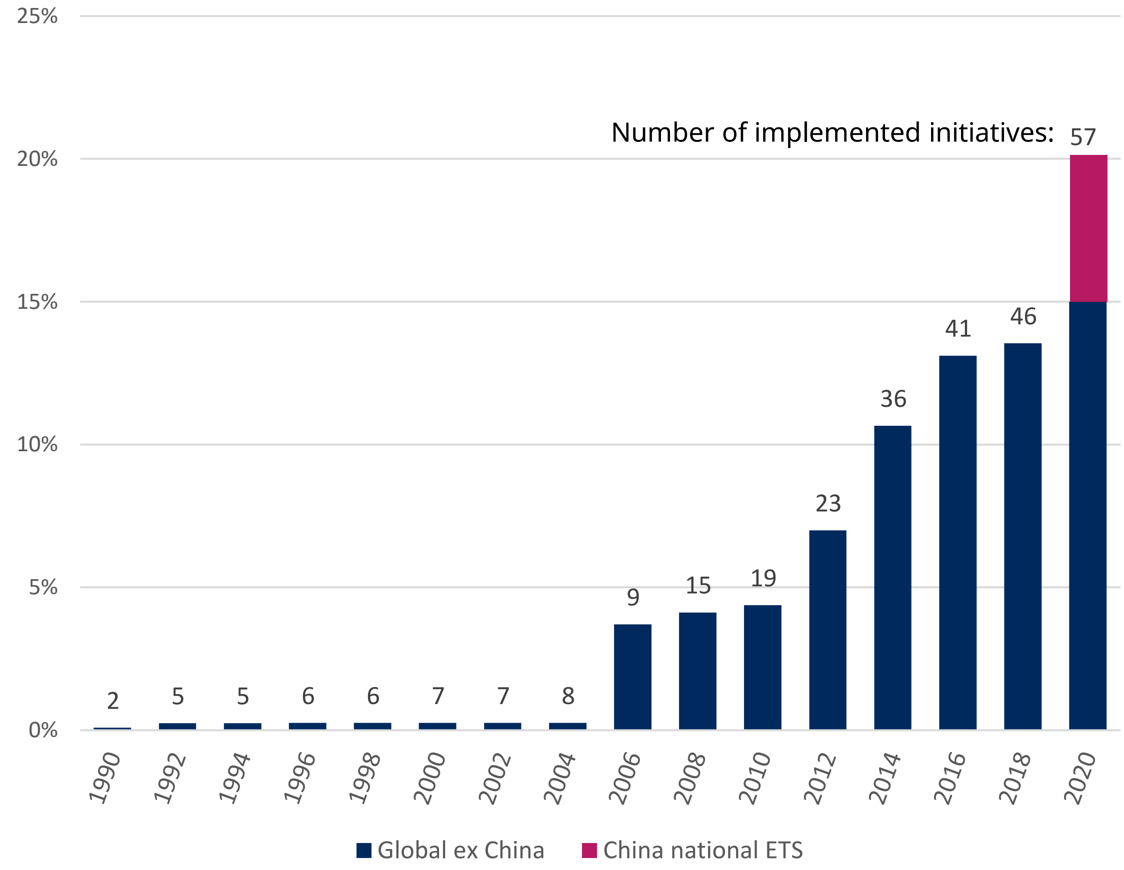
Source: Schroders.

Change 1: Regulation

Substantial rise in carbon prices needed over the next decades

Carbon pricing will soon cover a quarter of global emissions

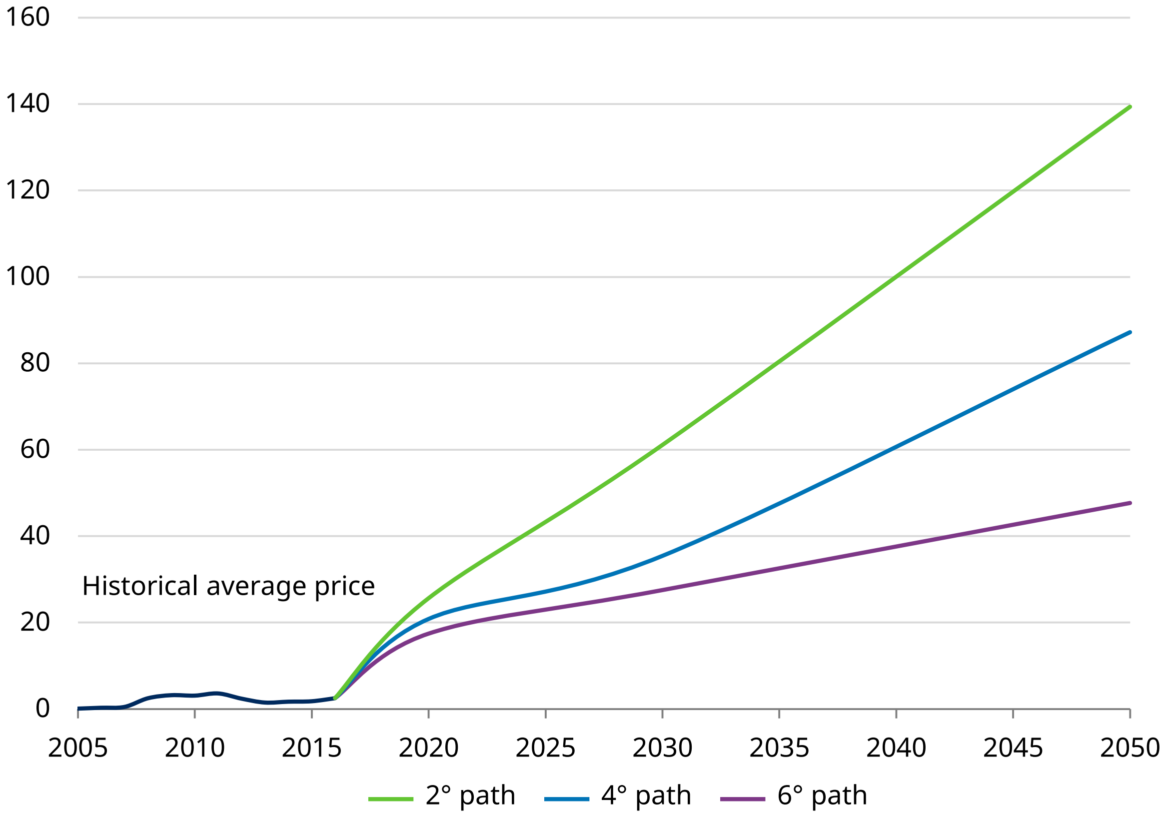
Share of global GHG emissions covered (%)



Source: Schroders, World Bank, November 2019.

Carbon prices are set to rise significantly

US$/tonne



Source: PointCarbon, BP, IEA, OECD, World Bank, May 2017.

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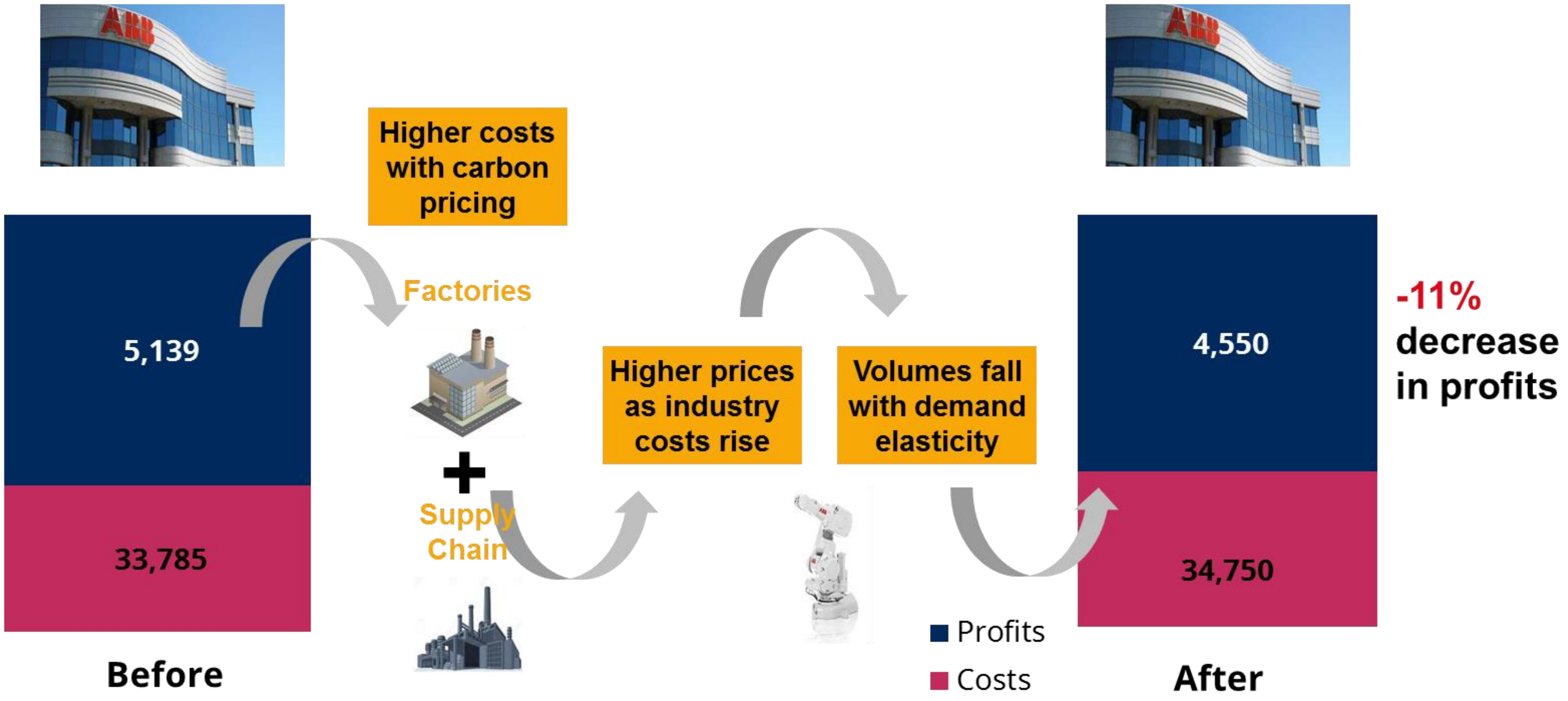
Carbon Value at Risk

Examining carbon pricing through an industry lens

Example: ABB



Source: Schroders, All numbers in $mn. Sales, Costs, EBITDA values are averages over 2013–16. Assumption: CO2 prices increase to $100t/tonne.

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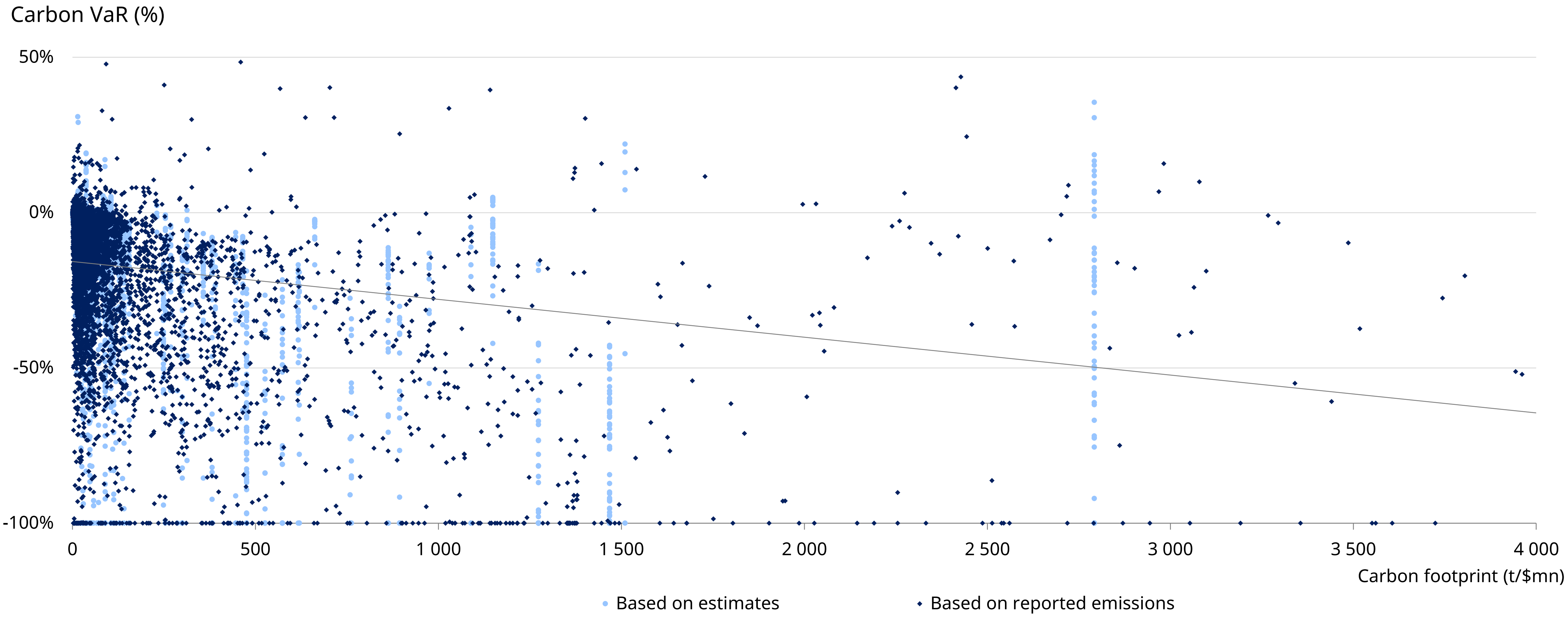
Conventional tools are not a shortcut

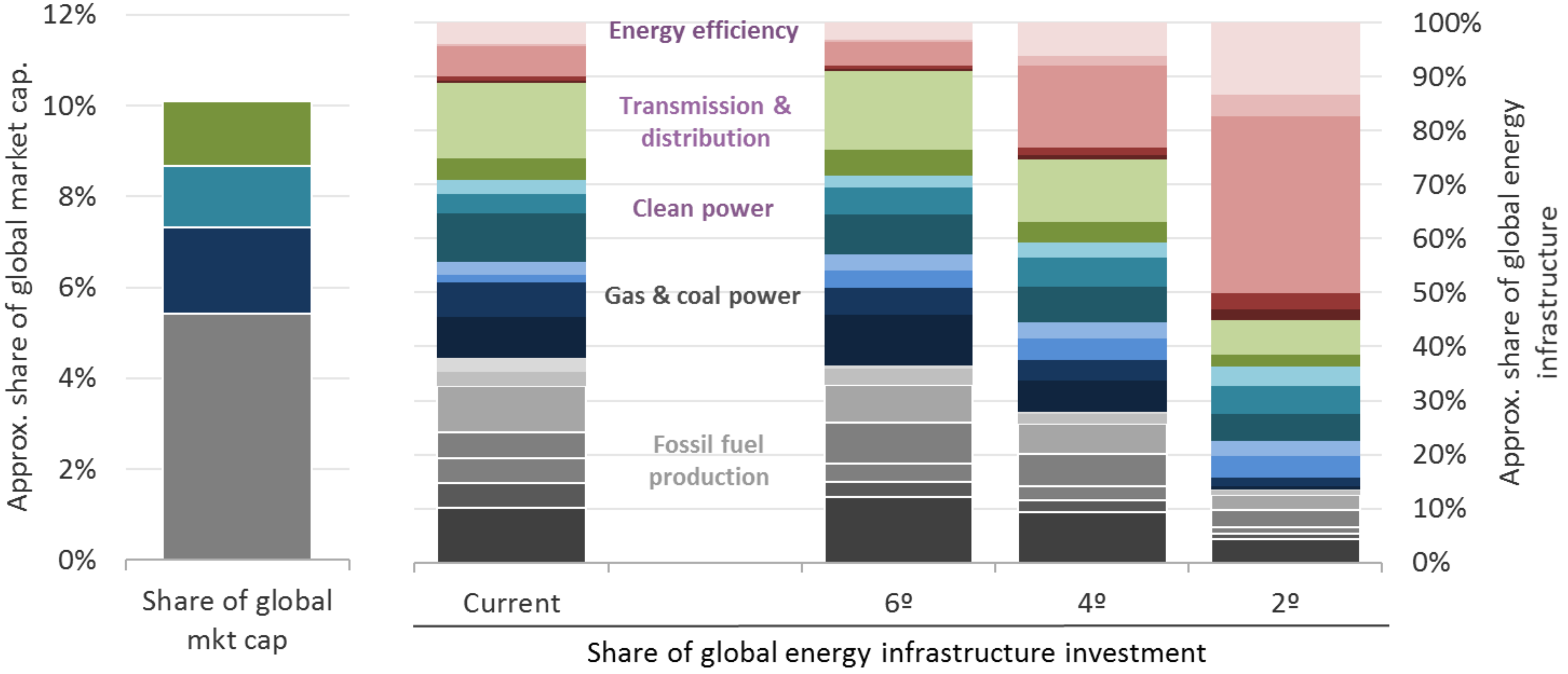
Limited relationship between carbon footprints & Carbon VAR



Note: Assumes CO2 price is $100/tonne. Source: Schroders, as of December 2019.

Change 2: Technology
Infrastructure shifts to 2035 will reshape financial markets

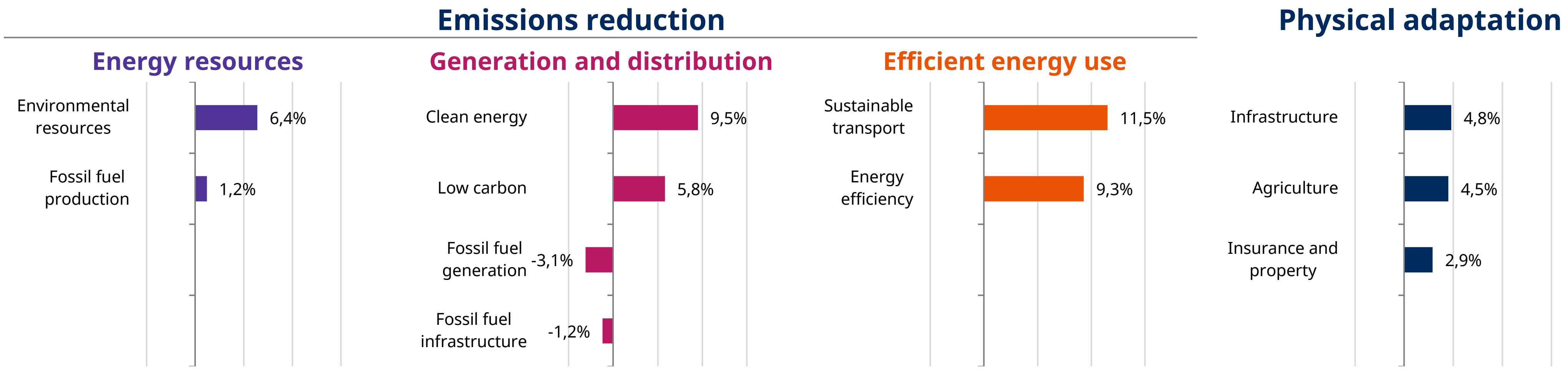
Current and projected capital investment across the energy complex



Future capital stock is estimated by combining forecast investment in each category with assumed depreciation of existing assets (ranging from 15-50 years for useful lives).We assume energy infrastructure's share of economy-wide capital stock remains unchanged. Source: Datastream, IEA, Schroders.

Redefining growth across markets

Translating a macro view of climate change into market implications



Examples of positive/negative impacts

	Winners	Losers	Winners	Losers	Winners	Losers	Winners	Losers
Direct effects	Forestry	Oil and gas extraction	Solar and wind farms	Coal utilities	LED producers	Steel	Irrigation	Farming
Downstream markets	Biofuel refining	Petrochemicals	Energy storage	Cement producers	Smart metering	3D printing	Genetically modified crops	Food producers
Upstream industries	Lithium mining	Oilfield equipment	Solar cell makers	Coal mining	Building efficiency	Iron ore	Agricultural equipment	Logistics

Investment growth projections based on IEA technology forecasts and reviews of individual markets using third-party market studies. Source: IEA and Schroders.

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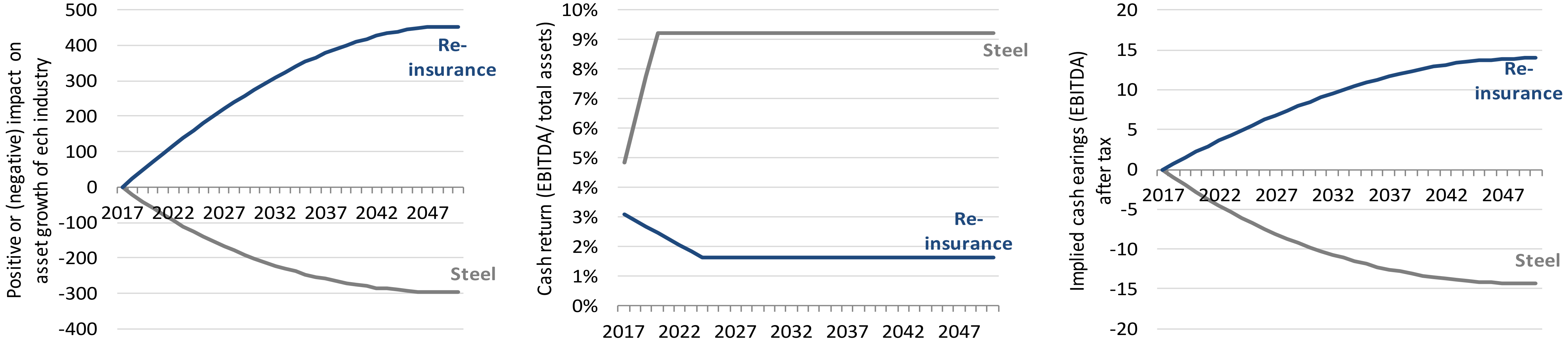
Translating growth into value implications

Modelling in Re-insurance and Steel industries

Project how much larger or smaller each industry would be if the global economy moves toward alignment with two degree warming, rather than the current trajectory

Assume industry profitability (EBITDA/ Assets) moves from current levels to long run sustainable levels; the time it takes to adjust reflects industry discipline

Combine the effect of higher or lower assets with profitability projections to gauge future earnings trends in each industry



Source: Schroders

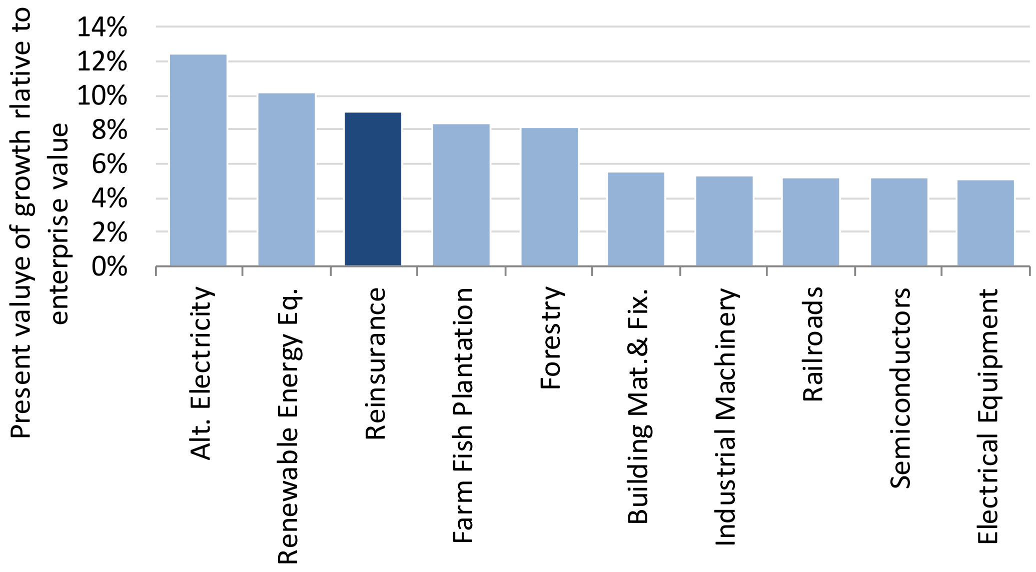
Schroders

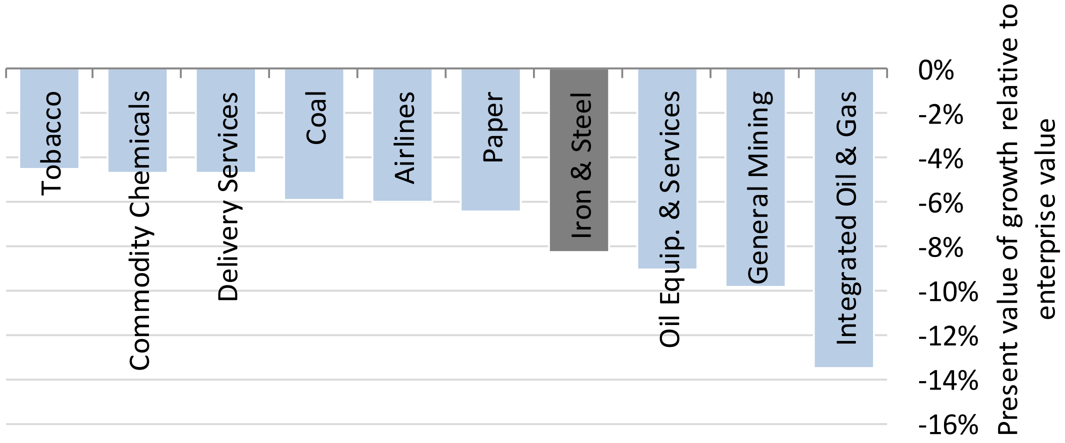
Wide range of impacts across sectors

Approximate balance of winners and losers

Comparison of industry level positive or negative impact; comparison of two degrees to current trajectory

Compare the present value of those earnings effects to the current enterprise value of each sector to gauge the scale of risk each faces



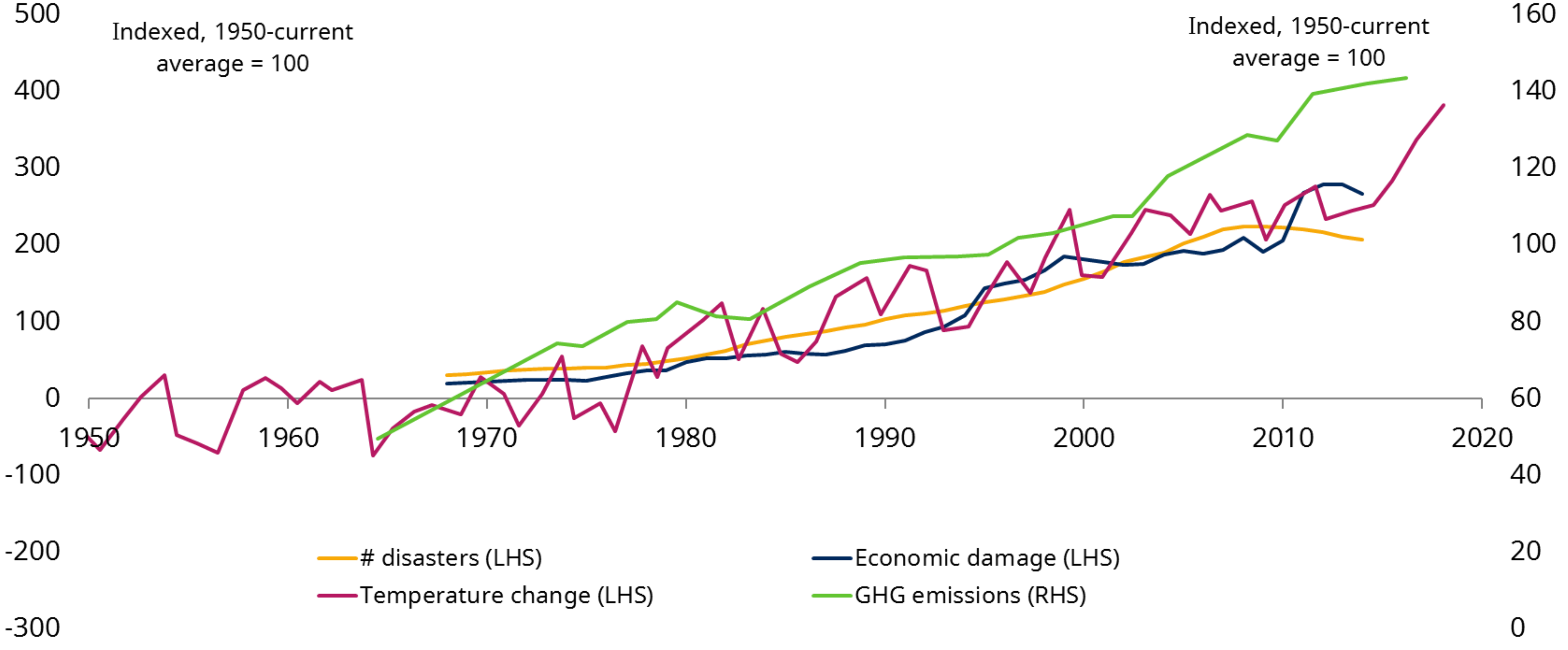


Source: Schroders

Change 3: Physical risk

GHG emissions, temperatures and disasters are all rising in tandem

Causes and effects of climate change have risen in tandem



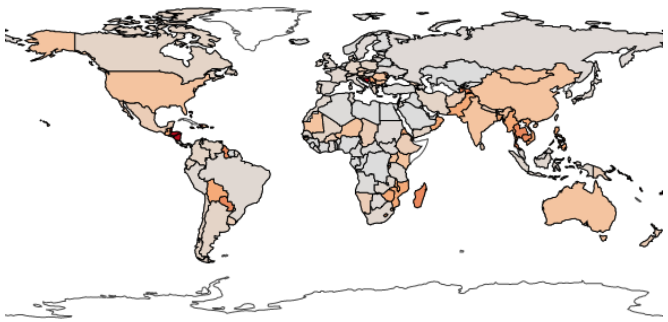
Source: EM-DAT, NASA, Schroders and UN FCC. Based on most recent data available in May 2018

Mapping physical damage

Using insurance modelling to assess damage

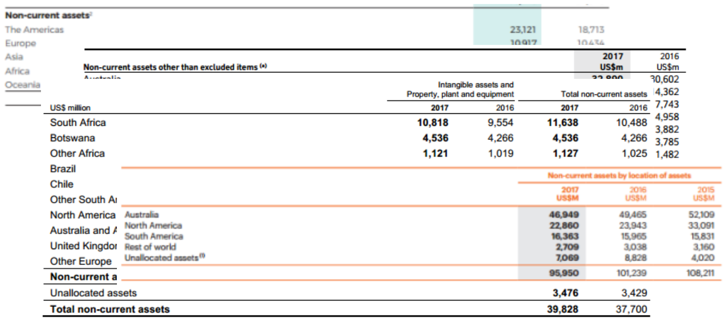
1

Damage caused by climate change, based on estimated economic costs relative to GDP over the last 20 years.



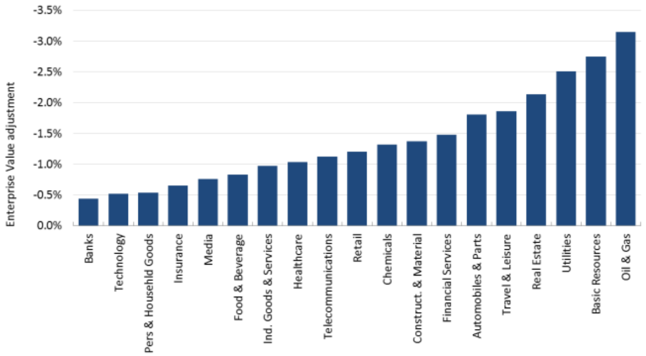
2

Companies' exposure to physical risks calculated by combining country risk analysis with their reported geographic assets.



3

Costs of insurance against physical damage calculated using current exposures, standard global loss ratios and projected damage growth over the next 13 years.



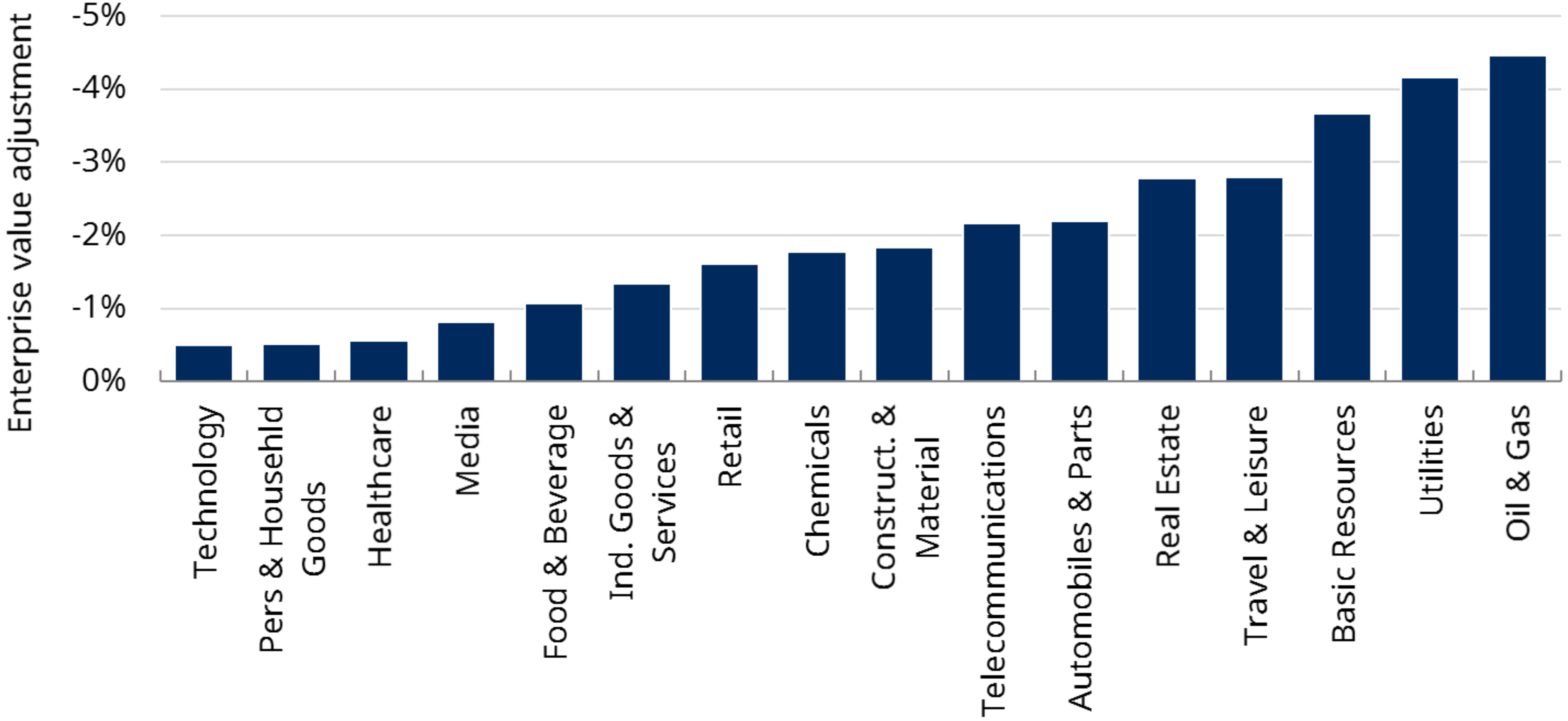
Source: Munich Re, Schroders.

Schroders

Wide range of impacts

From limited risk to significant across sectors

Estimated impact (insurance cost) relative to enterprise value, by sector

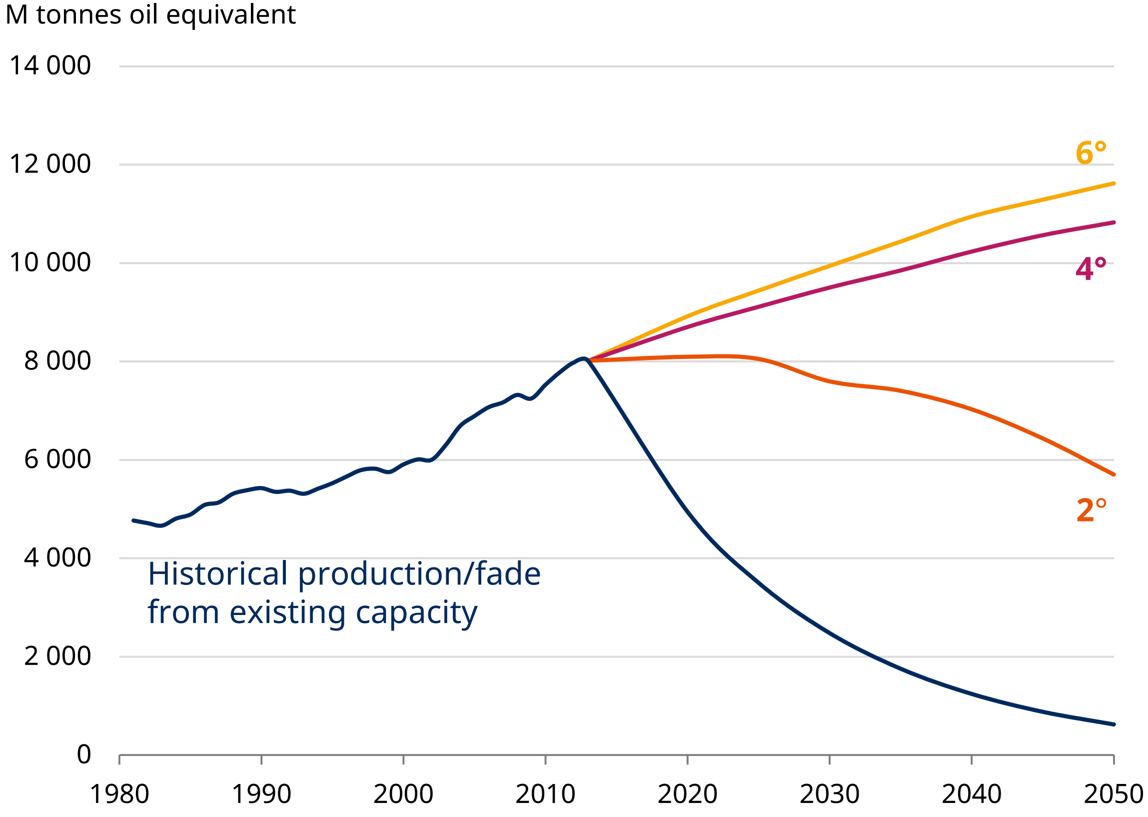


Source: Schroders

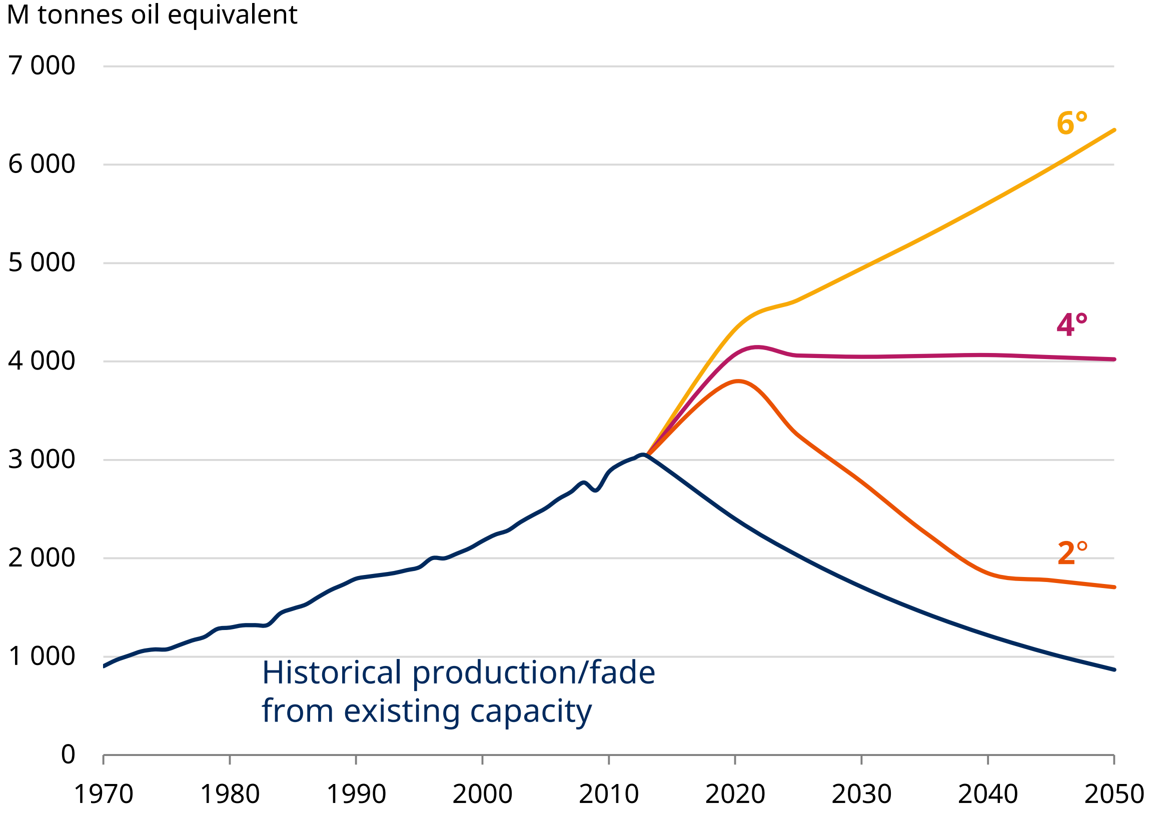
Change 4: Fossil fuels

Consumption of fossil fuels under climate scenarios

Meeting climate goals could hit oil production hard...



...and coal production even harder



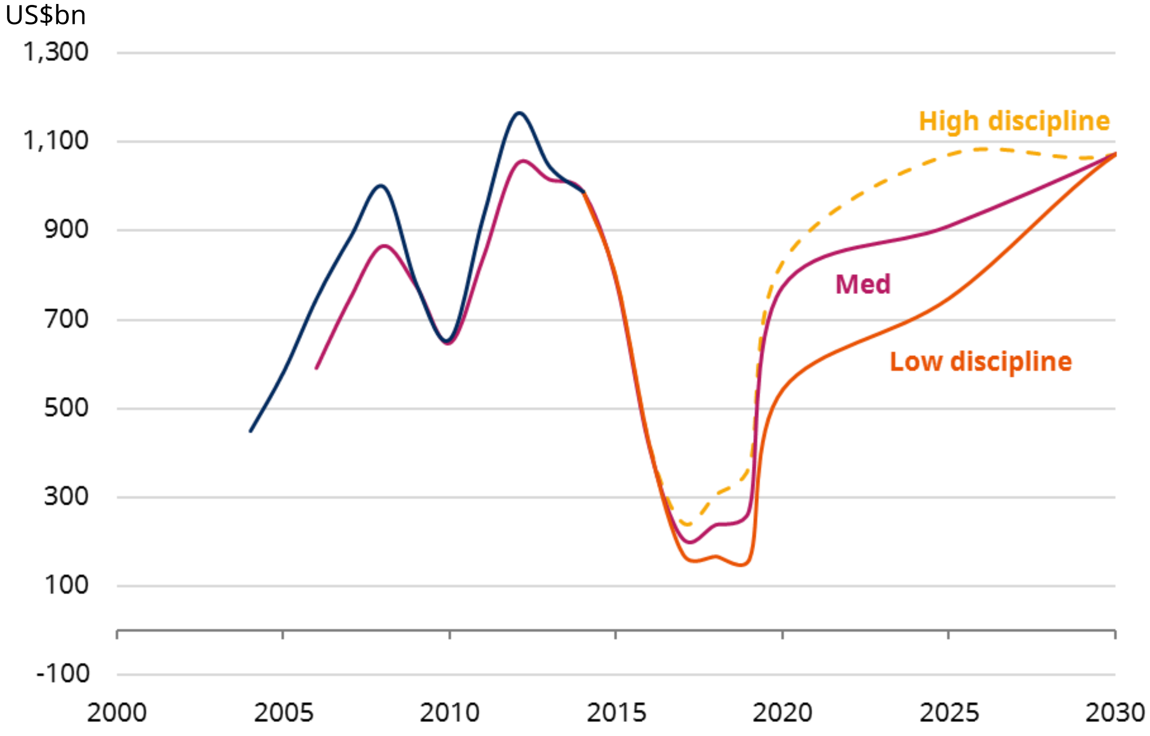
Source: Schroders based on BP Statistical Review, IEA and OECD data.

Schroders

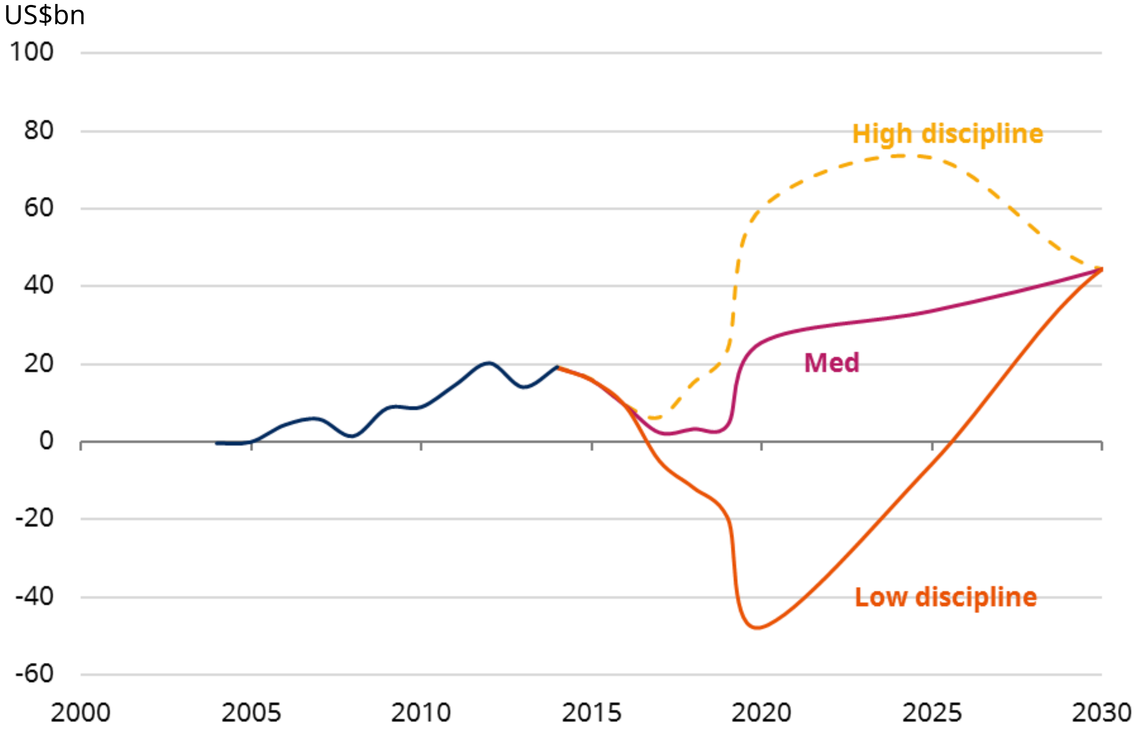
Profitability will depend on the industry's response

Wide range of profit outcomes depending on discipline

Discipline will help oil companies master their own destiny…



…and coal companies even more so

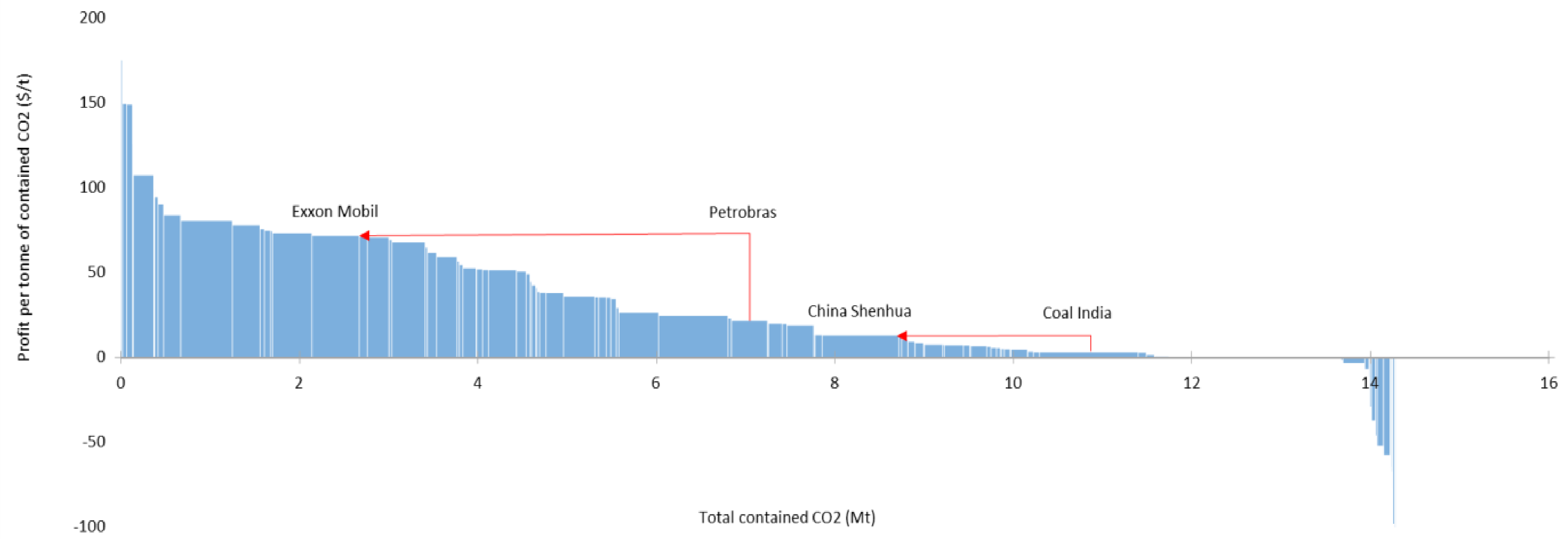


Source: Datastream, Schroders

Not all companies are equally exposed

Many fossil fuel producers have a buffer against demand constraints

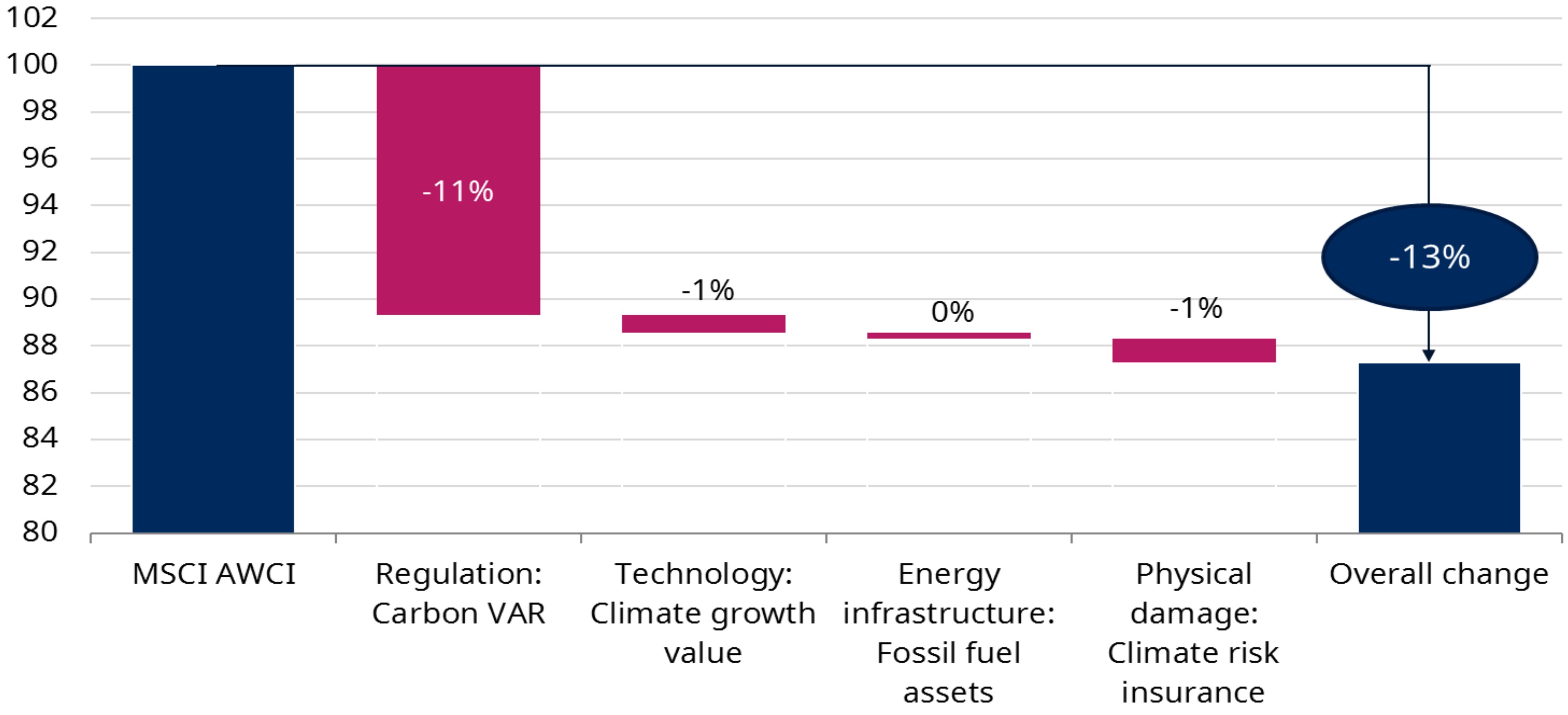
Fossil fuel production profit pool per tonne of contained CO2



Source: Carbon Underground, Thomson Reuters, Bloomberg,

Most companies will be hurt…

10-20% impact on global equity valuations

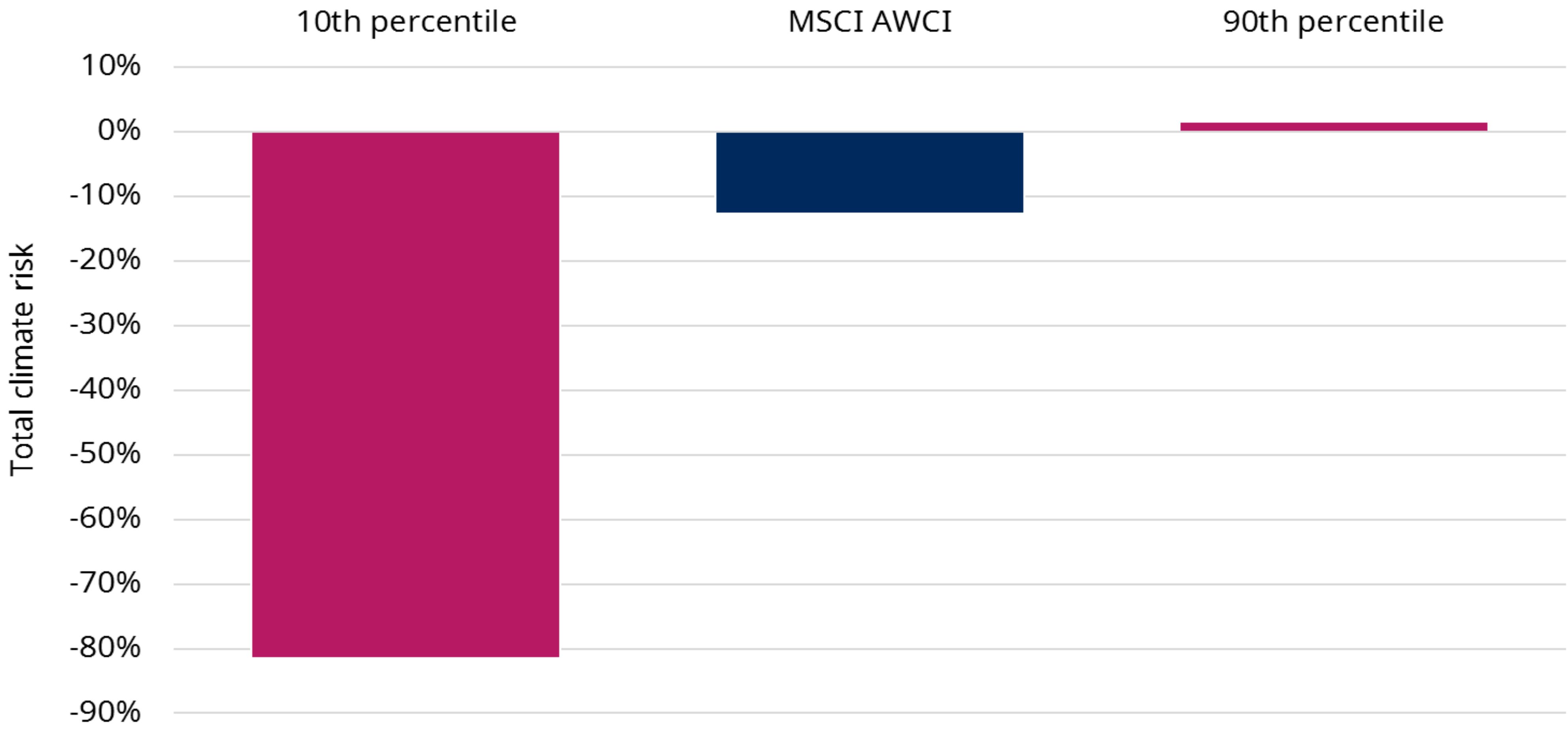


Source: Thomson Reuters, MSCI, CDP, Schroders

Schroders

...but there will be winners & losers

Impacts of 10th and 90th percentile companies



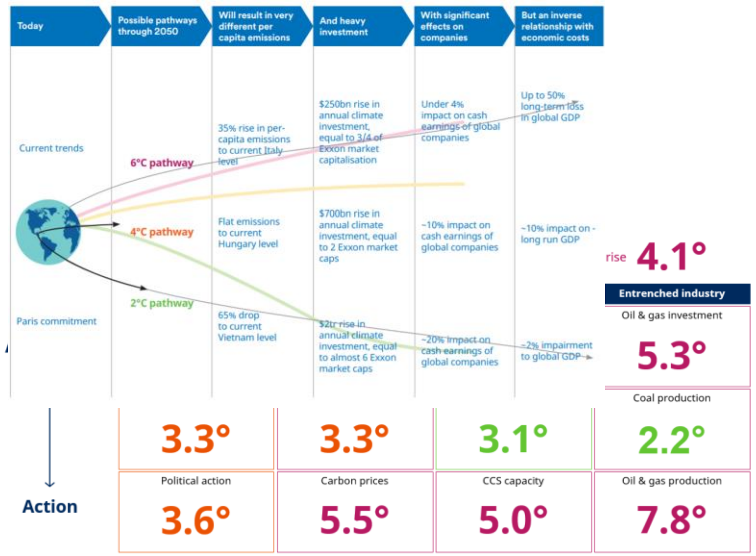
Source: Thomson Reuters, MSCI, CDP, Schroders

Schroders

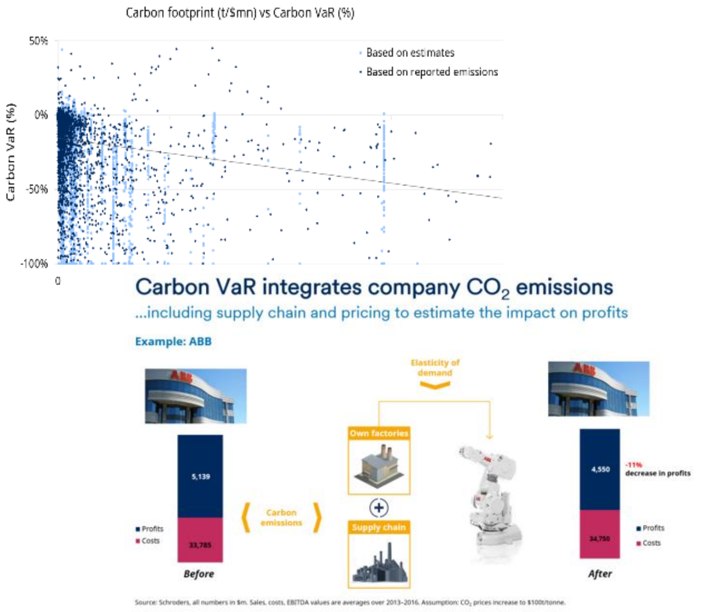
Considering climate risk through the investment chain

Climate change strategy

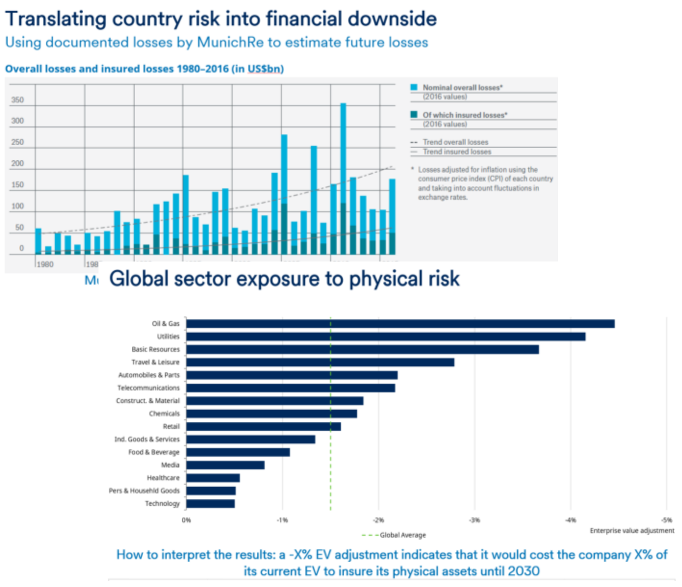
Climate progress dashboard



Carbon Value at Risk (CVaR)



Physical risk model



>200 company engagements[1] covering:

carbon emissions, reduction targets, physical risks, analysis & disclosure in line with TCFD recommendations

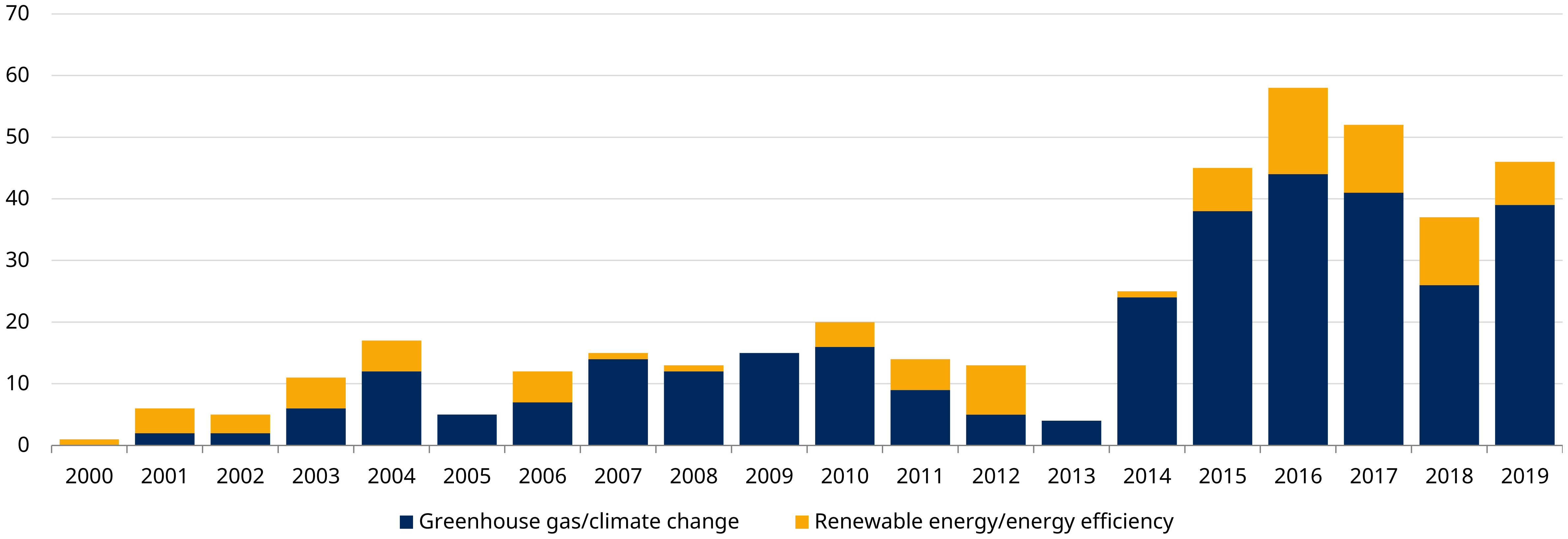
Source: Schroders. [1]January to December 2019.

Schroders

Climate change at Schroders

Voting record on shareholder resolutions

Number of shareholder resolutions voted on



Source: Schroders, as at 31 December 2019.

Schroders

ESG strategy building

Which steps do you need to implement?

1 Screening your current ALM, what is your current situation

1. Identifying ESG raw risk criteria, especially climate and sustainability risks
   - Ecological – electricity consumption, GHG emissions…
   - Social – proportion of female executive…
   - Governance – reporting, executive package…
2. Creating and application of screening tools
3. Running the analysis and aggregating this info with the right indicators, e.g.
   - E – temperature or carbon footprint of the investment portfolio
   - S – employee satisfaction/well being
   - G – transparency rating

2 Defining objectives and timing, e.g.

- E – Reducing the portfolio’s temperature from current 4 degrees down to 2 degrees within 10 years
- S – Engaging companies to improve the employees well being (from score A to score B within 15 years)
- G – Eliminating corporate without transparency

3 Implementation

1. Risk assessment: measuring the sensitivity of the portfolio to the objectives and to the ESG risk criteria
2. Investment process: choosing and applying one or several levels of ESG integration
   - Impact investment (explicit factor)
   - Exclusion (exclusion of tobacco…)
   - Thematic/best in class investment
   - Full ESG integration across the balance sheet
   - Active ownership to transition corporate: voting and engagement
3. Communication/ESG disclosure, reporting
   - Corporate: communicating in coherence with all the above!

Different approaches of ESG investment

Where could you start the ESG implementation journey in your balance sheet?

Best-in-class investing =

Using an ESG analysis/rating approach
with a proper SRI team

Active ownership=

Engaging to help companies transition could be more impactful than disinvesting.

Requires a proper engagement team

Full ESG integration=

All investment and risk management people have an ESG role

Thematic investing =

Investing in a strong thematic (Climate change, demography, technology, sugar in the agro industry…)

Negative screening =

Exclusion of FI and/or equity exposure to specific corporate/countries (Tobacco, coal, …; death penalty, corruption etc.)

Impact investing =

Improving one specific ESG factor in one product (social healthcare, renewable energies, energy efficient real estate etc.)

Source: Schroders.

Sustainable investing – key terms to understand

Corporate responsibility

A company's responsibility to operate its business in a way that does not harm the environment or society as a whole

Active Ownership ≠ Shareholder activism

Actively exercising your shareholder rights and engaging with investee companies to encourage responsible corporate behaviour and improve long-term shareholder value

Engagement

A purposeful dialogue between a company and its shareholders that aims to enhance and protect the value of investments. This might take place to seek additional information about a company's practices or to encourage improvements in performance and processes

Screening

An investment approach used to filter companies based on pre-defined criteria before investment. You can use a **negative screen** (in which you deliberately exclude certain companies because of their involvement in undesirable activities or sectors) or a **positive screen** (in which you select companies based on their sustainability practices)

Impact investing

Investments that are made with the **primary goal of achieving specific, positive social benefits** while also delivering a financial return. They create a direct link between portfolio investment and socially beneficial activities, historically most of the activity has occurred in unlisted assets

Thematic investing

Investing in companies that can be classified under a particular investment theme such as renewable energy, waste and water management, education or healthcare innovation

ESG integration

An investment approach that **takes into consideration** a range of sustainability and ESG-related risks and opportunities in addition to traditional financial analysis

Responsible investing

An investment approach that considers ESG-related risks and opportunities as **part of its investment process and includes engagement and voting** in order to generate sustainable, long-term financial returns with consideration for society and the environment

Sustainable investing

An investment approach in which a company's **sustainability practices are paramount to the investment decision** and in which ESG analysis forms a cornerstone of the investment process

Source: Schroders.

Impact investing: Green Bonds

Company	Green/social bond	Sustainability goals of the bond	Engagement and conclusion	Sector	Credit rating	Yield
Assicurazioni Generali	ASSGEN 2.124 10/01/2030 (Green)	– Renewables – Energy efficiency – Waste and water management – Clean transportation	– We view Generali as above-average on social and environmental factors – Scope to improve	Insurance	BBB-	2.0%
Credit Mutuel Arkea	CMARK 0.375 10/03/2028 (Social)	– Social housing – Childcare centres – Single-parent shelter – Medical treatment facilities for the underprivileged	– Active supporters of cultural, healthcare, education and social enterprises in local regions	Banking	A+	0.5%
Enel	ENELIM 2.65 09/10/2024 (SDG-linked)	– SDG-linked bond. Added incentives to meet its energy transition goals – Specific emphasis on SDGs #7, #9, #11 and #13	– Focused on the decarbonisation of power production and reduction of carbon footprint – Ranks well vs. peers	Utilities	BBB+	0.2%
EDP	EDPPL 4.496 04/30/2079 (Green)	– Support transition to low carbon – Renewable energy projects: wind and solar power	– Top position in share of renewables – Increased focus on Brazil, North America and parts of Europe – Overall strong ESG performer	Utilities	BB	1.9%
LeasePlan	LPTY 1.375 03/07/2024 (Green)	– Sustainable vehicle fleet – Aim to achieve net zero emissions by 2030	– Minimal exposure to diesel – Only 2.9% of fleet is diesel euro 5 or older, rapidly rolling down to zero	Auto leasing	BBB	0.5%

Source: Schroders.

Impact investing: Private healthcare = strong social impact (cont.)

Biotechnology is curing unprecedented diseases

Venture backed companies with curative treatments against untreatable diseases

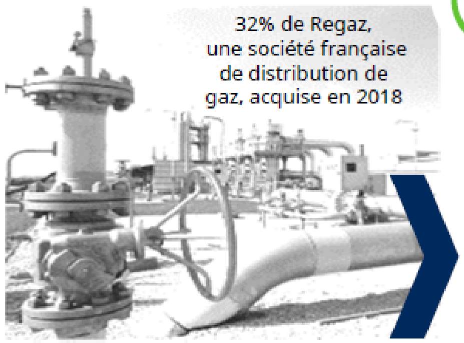
VC backed company	Schroder Adveq invested[1]	Disease	Response/cure rates	Outcome for investors
PHARMASSET	yes	Hepatitis C	94% CURED	Acquired by Gilead for USD 11bn in 2011
JUNO THERAPEUTICS	yes	Leukemia	92% CURED	Acquired by Celgene for USD 9bn in 2018
bluebirdbio	yes	Cerebral adrenoleukodystrophy	88% CURED	Public, USD 9.3bn market cap
Spark THERAPEUTICS		Retinal dystrophy	93% CURED	Public, USD 3.0bn market cap
avexis		Spinal muscular atrophy	100% CURED	Acquired by Novartis for USD 8.7bn in 2018

Source: Schroder Adveq, 2019.
[1]Former underlying portfolio companies (indirect investments).
Companies shown above are for illustrative purpose only.

Impact investing: Infrastructure equity

Regaz – Social Impact

Investissement dans Régaz



1

Poids économique direct

Résultant des dépenses directement générées par la structure (exploitation et investissement)

2

Poids économique indirect

Issus des échanges tout au long de la chaîne de valeur (sous-traitants et fournisseurs)

3

Poids économique induit

Issus de la consommation des ménages générée par les revenus liés au poids économique direct et indirect

51 m EUR

Impact économique direct calculé sur la base des investissements et des charges d'exploitation

+

68 m EUR

Calcul de l'impact économique indirect et induit basé sur une méthode statistique*.

358 emplois soutenus

Correspond aux emplois créés ou maintenus en lien avec l'activité. Il s'agit des équivalents temps plein (ETP) des employés de Régaz, des employés des sous-traitants et des fournisseurs ainsi que de ceux générés par la consommation des ménages.

Source: Revue Deloitte de l'impact économique de Régaz - Mai 2019 - Regaz intervient en tant que GRD (Gestionnaire de Réseau de Distribution) pour maintenir et développer un réseau de distribution de gaz desservant environ 50 communes de la région Bordelaise - (i) Sur la base de la méthode entrée-sortie de Leontief, à partir des tableaux entrées-sorties (INSEE 2015) appliqués au poids économique direct.

Source: Schroders.

Impact Investing: Infrastructure debt

Deal summary	
Country	France
Sector	District heating
Schroders AIDA role	One of two participants
Debt tranche	Junior
Moody's RiskCalc	Ba2
Asset	Brownfield

Investment summary	
Investment date	08 August 2018
Tenor	7 years bullet
Invested capital	€44.2m
Format	Secured, at HoldCo level, subordinated to OpCo debt
Interest rate	E + 4.50% with Euribor floor (and 1.65% upfront fees)

Capital structure at closing	
Equity	50%
Junior debt	4%
Senior debt	46%

Investment thesis

- Diversified portfolio of district heating services under long term concession agreement generating predictable cash-flows
- Holding company financing, but low leverage at asset level and moderate consolidated leverage

Origination

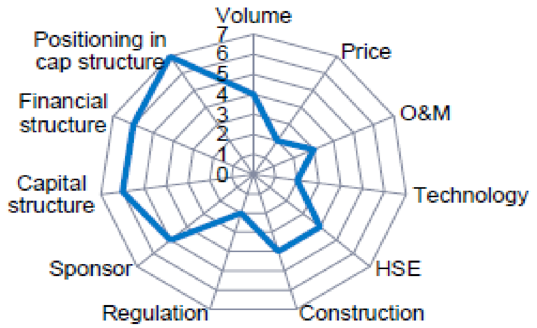
- Acquisition finance transaction generated from long standing relationships with the financial sponsor and excellent knowledge of the asset
- One of only two lenders invited to participate

Major risk considerations

- Volume: well diversified portfolio, medium term contracted cash flow profile, with residual impact from weather change
- Capital structure: sponsor holds 100% of the asset and business plan has significant headroom to financial covenants embedded

Risk spider analysis

Residual risk (R), combining likelihood (L) and potential impact (I), from 1 = low to 7 = high



ESG considerations

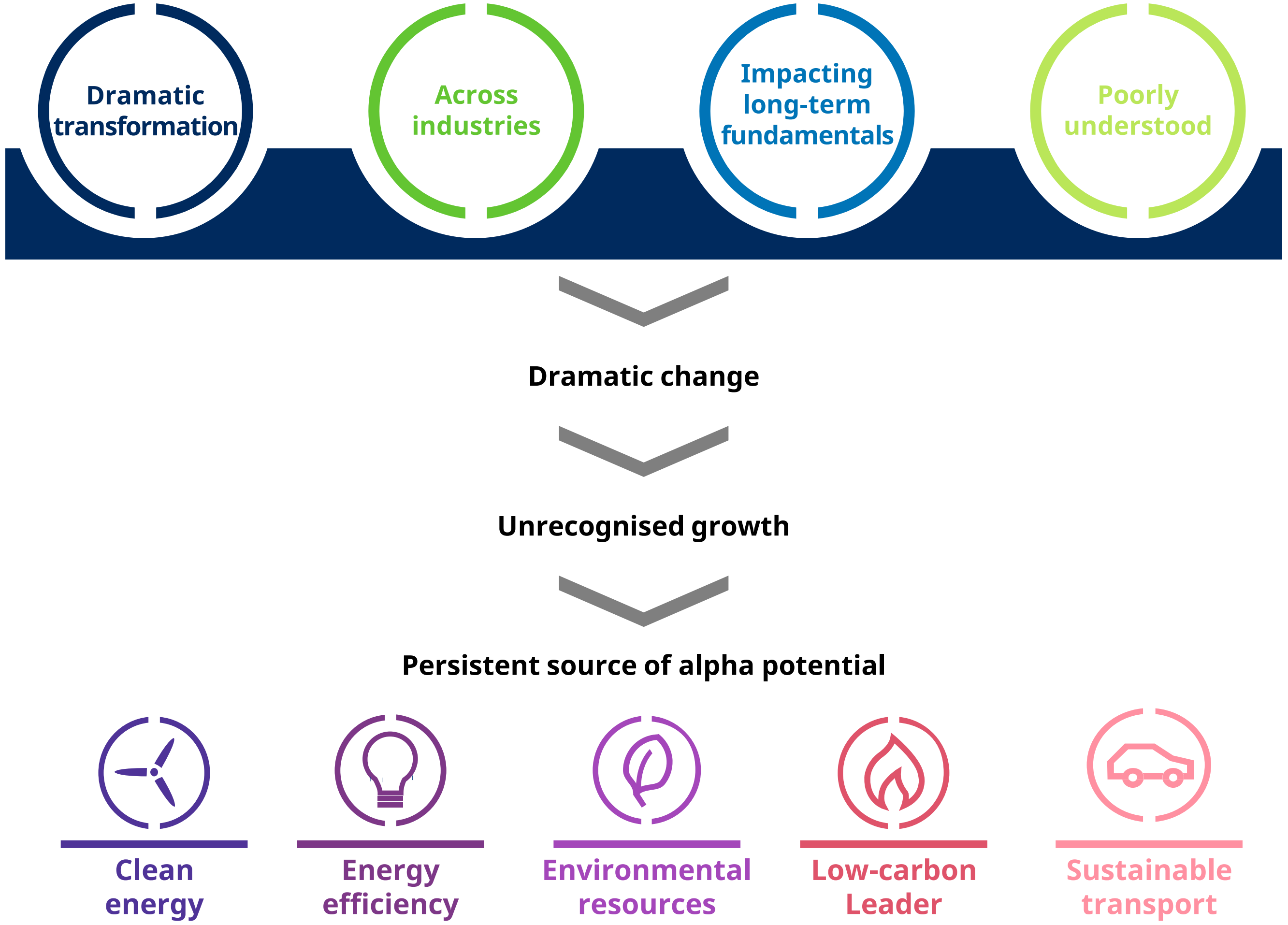
- District heating contribute to the energy transition through significant cost savings in collective rather than individual heating, and uses renewable energy such as energy from waste or geothermy
- The operating company has environmental certificates
- Sponsor is a signatory to internationally-recognised principles for responsible and sustainable investment

Source: Schroders, April 2019. Confidential. Reference to companies shown are for illustrative purposes and not a recommendation to buy and/or sell.

Thematic investing: Climate Change – Equity

Climate change strategies generate environmental impact and Investment opportunities

- Climate change requires a dramatic transformation in the global economy
- Policy implications are already far-reaching and will affect almost all industries in time
- The theme will increasingly impact company fundamentals (revenues, profitability, and valuation)
- The implications of this are poorly understood, which creates a powerful source of alpha



Source: Schroders, as at 30 June 2019.

Thematic investing: Climate Change – Equity (cont.)

The low-carbon energy transition will be hugely disruptive

New investment and earnings opportunities will come from three key structural trends

Decarbonisation of power generation

The share of electricity generated from **renewables is expected to increase from 20% to closer to 85%** by 2050 in order to reduce carbon emissions

Electrification of energy use

The share of **electricity in final energy consumption is expected to increase from 20% to nearer 45%** by 2050 due to the growth of electric vehicles

Increased efficiency of consumption

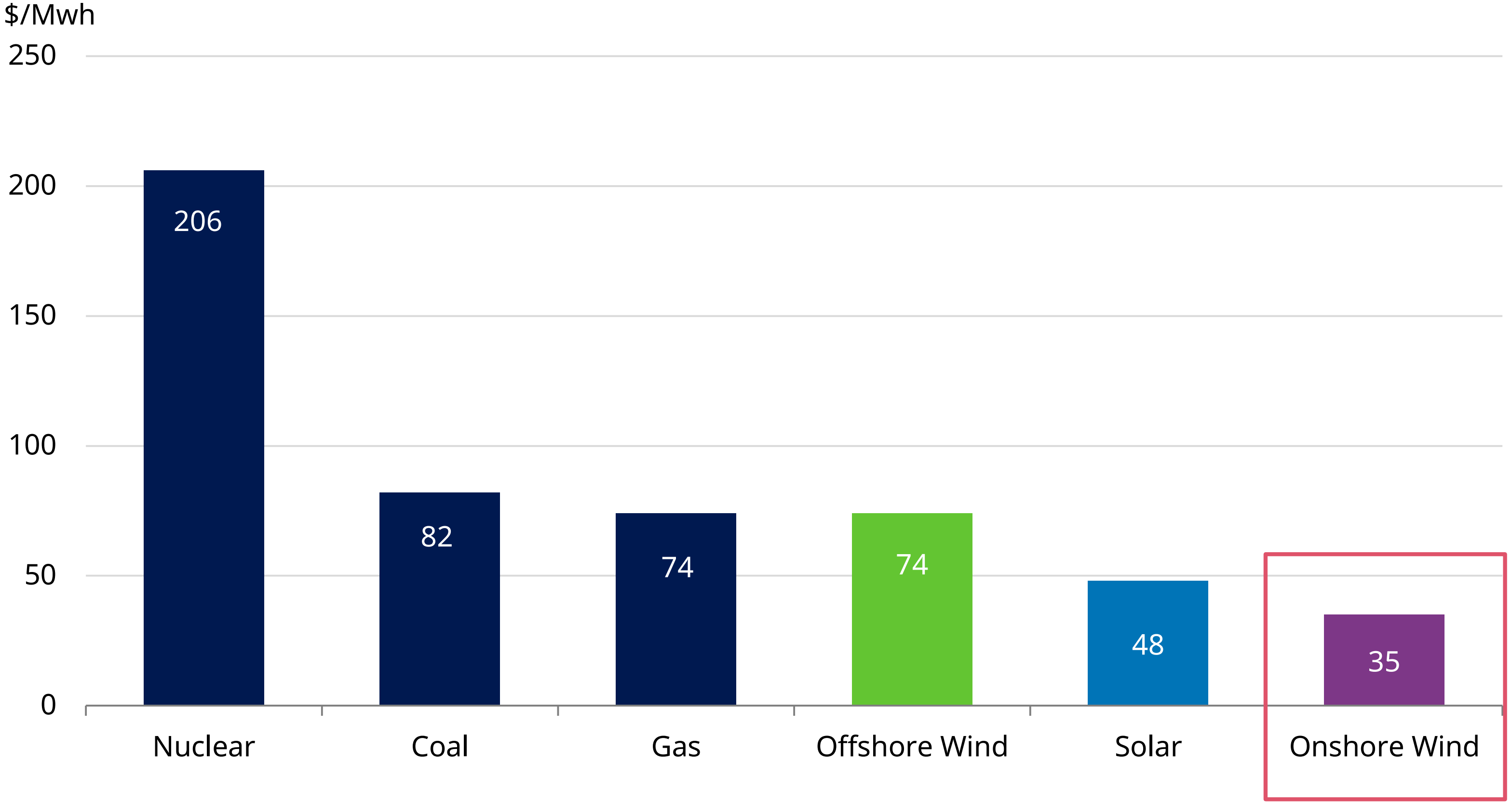
The **energy intensity[1] of the global economy must fall by nearly two-thirds** by 2050 to limit the growth in overall power consumption

Source: Schroders, [1]Energy intensity is the amount of energy needed to produce one unit of GDP. Source: Schroders, IEA, BNEF, IRENA, as of June 2019.

Thematic investing: Climate Change – Equity (cont.)

Clean energy has trendemous growth opportunities
Renewable energy is now the lowest cost form of power

Expected average levelised US energy costs in 2020



> "By early in the next decade, as further cost declines are realised and module efficiencies continue to improve, we expect that without incentives, **solar will be** $0.03 to $0.04 per kilowatt hour product, **below the variable costs required to operate an existing coal or nuclear generating facility** of $0.035 to $0.05 per kilowatt hour."

Jim Robo, CEO of NextEra, January 2018

Source: Schroders, Citi Utilities Research, October 2017.

Thematic investing: Climate Change– Equity (cont.)

Translation of the theme into a climate change portfolio- Five broad themes

Theme	Industry examples	Company examples
Sustainable Transport	Railroad infrastructure, electric, hybrid and natural gas transport	Samsung SDI, Umicore, Infineon
Environmental Resources	Water infrastructure, agricultural productivity and forestry	Kubota, Lindsay, Tomra
Clean Energy	Nuclear power, renewable energy, grid infrastructure	First Solar, Vestas, Orsted
Low-Carbon Leader	Low-carbon disruptors, low-carbon industry leaders	Norsk Hydro, Croda
Energy Efficiency	Lightweight materials, lighting, smart grid, test measurement and controls	Sekisui Chem, Spirax-Sarco

Source: Schroders as at 30 June 2019. For illustrative purposes only, it does not represent any recommendation to invest in the above mentioned securities.

Best-in-class investing: Corporate Bond

Sustainability assessment

CaixaBank SA: Spanish banking group with social development goals

Social assessment:

- High employee training hours (av. 72 hours pp)
- Working to increase number of female and younger workers
- Linked to LaCaixa's benevolent foundation. Will need to work hard to maintain that reputation
- Taking the industry lead in SDG bonds

Governance assessment:

- Several board members have no finance experience
- Whistleblowing policy unclear
- Commitment to increase gender diversity on board to 30% by 2020

Conclusion

- La Caixa have an outsized influence on strategy
- Integration of acquisitions has been executed well
- Improvements to board diversity expected
- Work to do to ensure staff remain happy amid tightening labour market

Schroders A to D rating: B (Improving)

Schroders E, S & G ratings

Environment	Social	Governance	Overall
A	B	C	B
Improving	Improving	Improving	Improving

Source: Schroders. For illustrative purposes only and should not be considered as recommendation to buy/sell.

ESG strategy building

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   - Corporate: communicating in coherence with all the above!

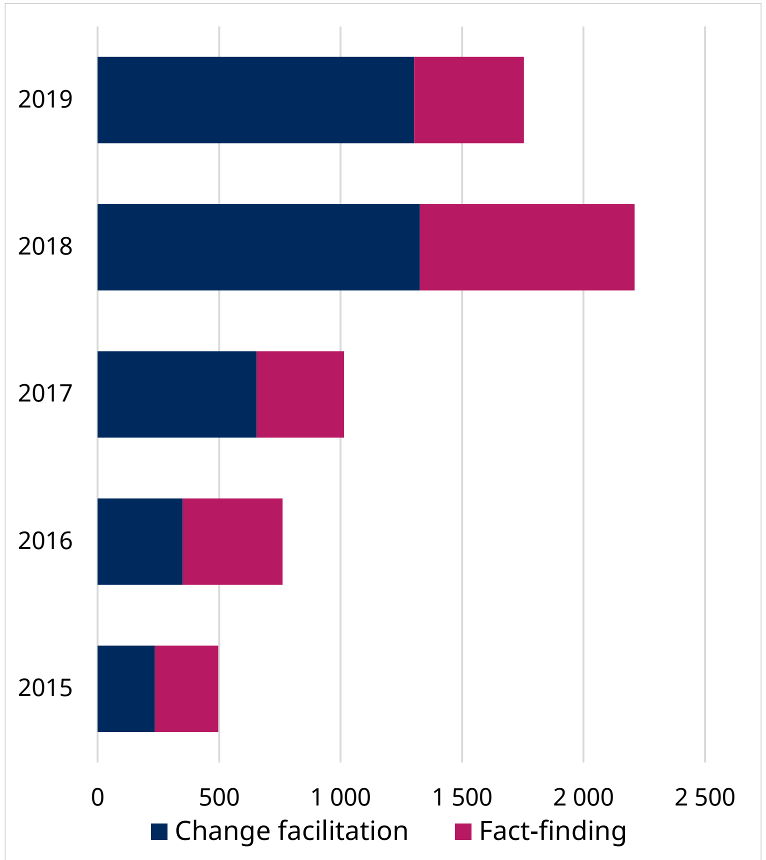
Engagement

Increasingly important

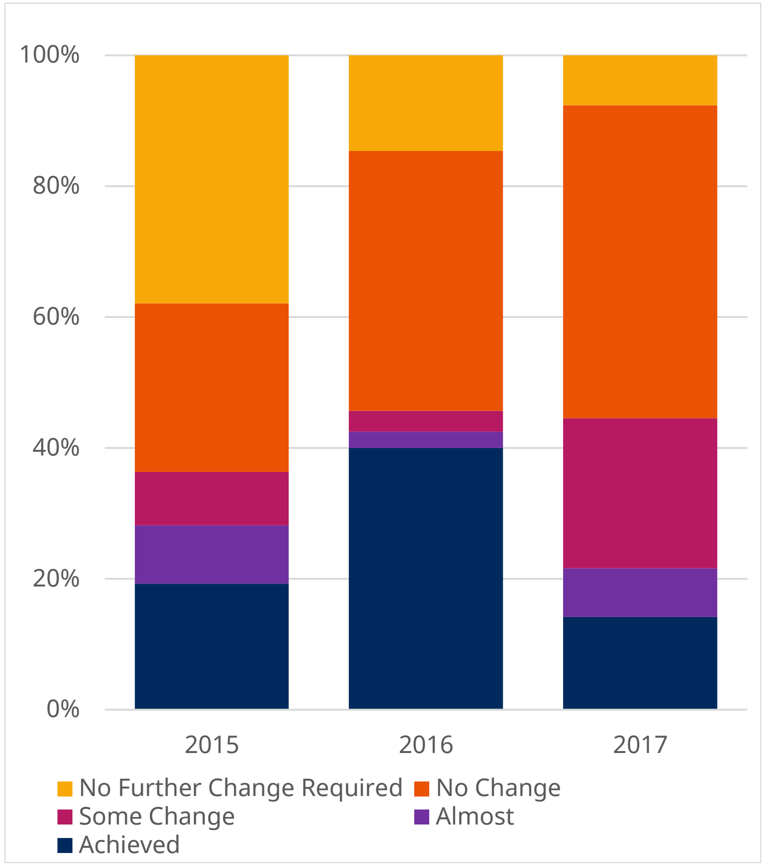
2019 sample engagement topics

Environmental	Social	Governance
Biodiversity	Customers	Accounting practices
Climate change	Data security	Auditors
Environmental policy/ strategy	Health and safety	Board committees
Environmental products and services	Human capital management	Board structure
Environmental supply chain	Human rights	Business integrity
Forests	Labour standards	Corporate strategy
Pollution	Nutrition and obesity	Transparency and disclosure
Waste management	Product safety	Governance oversight
Water management	Social policy/ strategy	Remuneration
	Supply chain management	Shareholder rights

Number of engagements



Effectiveness of change facilitations[1]



Source: Schroders, as at 31 December 2019. Top ten topics we engaged with companies are shown in pink. [1]By company engaged. Our experience suggests it takes an average of 2 years for companies to effect the change requested. In 2018 we introduced a new change facilitation process to automatically contact any company where we have voted against management. We communicate our global voting policy, the rationale behind our decision to vote against and invite the company to engage with us.

Engagement in practice

Using our influence to protect long-term value

Business

Unilever poised to quit FTSE 100 after more than 30 years

JOANNA BOURKE | Thursday 14 June 2018 11:55 | 0 comments

Click to follow
The Evening Standard

Concerns

- Delisting would result in forced-selling at a sub-optimal price
- Protectionist nature of Dutch market
- Failed to consider alternative simplification through UK incorporation

Actions

- 1:1 engagements with the Board
- Collective engagement via Investor Forum
- Publicised our intention to vote against management following little progress

Outcome

Company abandoned proposal

Source: Evening Standard
The security shown above is for illustrative purposes only and is not to be considered a recommendation to buy or sell.

Engagement in practice

Modern slavery

54
Letters sent to FTSE 100 companies

37
Responses so far

28
Discussions in progress

Case study: thematic engagement

Engagement: Modern Slavery

Poor performers

easyJet
gsk
bp
itv
Royal Mail
next

Non compliance with minimum standards

intertek
betfair
PADDY POWER

Better performers

M&S
BT
TESCO
Unilever
BURBERRY
Sainsbury's
vodafone

Voting

Global voting process

We assess every resolution, conducting our own research and applying our core corporate governance principles outlined in our ESG policy

We consider a range of factors including the circumstances of each company, long-term performance, governance, strategy and the local corporate governance code

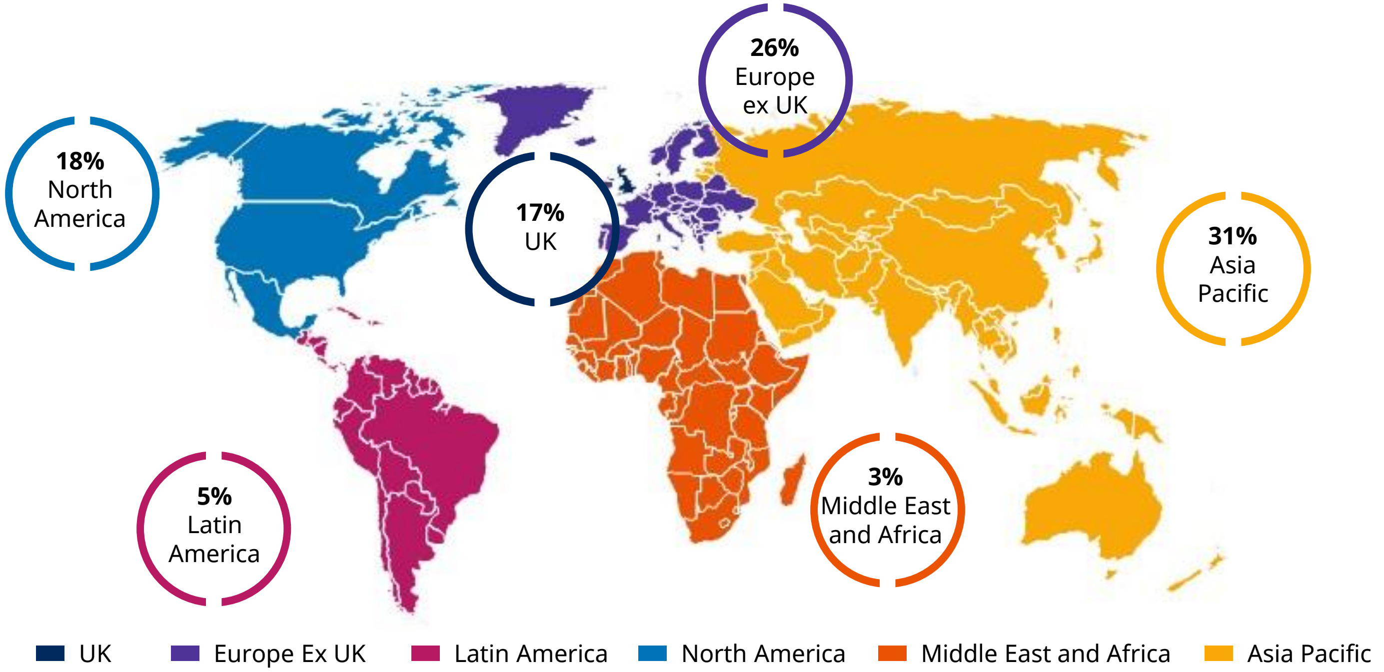
We normally hope to support management, however we are not afraid to vote against if we believe it’s in the best interest of our clients to do so

Source: Schroders

Voting in practice

Schroders' global voting record

	2015	2016	2017	2018	2019
Meetings	5,151	5,168	5,378	5,227	5,876
Resolutions	57,942	61,114	62,058	56,510	61,156
With management	85%	84%	82%	86%	87%
Against	15%	16%	18%	14%	13%
% meetings where we voted against at least one resolution	42%	39%	47%	48%	47%



Source: Schroders, as at 31 December 2019.
Map note: The percentages on the map are calculated from the number of meetings in each region.
Resolutions note: We vote against on numerous resolutions but these are predominantly based around board structure and executive remuneration. We work closely with the investors and engage extensively with the company before inputting an against vote. This is the number of resolutions we have voted on. We rarely table resolutions ourselves.

Schroders

Suggestions to integrate ESG and Climate

Within your risk management framework

Why not implementing the British climate stress test scenario?

“The potential financial impacts of climate change are well-documented. Furthermore, the PRA’s recent Supervisory Statement[1] set out the importance of firms using scenario analysis to assess the impact of the financial risks from climate change on their business strategy. However, last year’s Task Force on Climate-related Financial Disclosures (TCFD) report (published in September 2018) showed that while firms were starting to consider impacts to their strategic resilience resulting from climate change, few were systematically using scenario analysis.

This exploratory exercise is designed to provide additional market impetus in this area. It will also provide additional data that informs the Bank’s development of a consistent and effective approach to climate-focused scenario analysis, both domestically and through international groups like the **Network for Greening the Financial System (secretariat by Banque de France)**. Whilst this exercise will inform future Bank work, it should be viewed as investigatory in nature. The assumptions and methodology have been designed on this basis and should therefore not be taken as a precedent for future domestic or international exercises.“

Scenario A

A sudden transition (a Minsky moment[2]), ensuing from rapid global action and policies, and materialising over the medium-term business planning horizon that results in achieving a temperature increase being kept below 2°C (relative to pre-industrial levels) but only following a disorderly transition. In this scenario, transition risk is maximised. The scenario is based on the type of disorderly transitions highlighted the IPCC Fifth Assessment Report (2014)[3]. [Shock parameters illustrative of potential impact in 2022]

Scenario B

A long-term orderly transition scenario that is broadly in line with the Paris Agreement. This involves a maximum temperature increase being kept well below 2°C (relative to pre-industrial levels) with the economy transitioning in the next three decades to achieve carbon neutrality by 2050 and greenhouse-gas neutrality in the decades thereafter. The underlying assumptions for this Scenario are based on the scenarios assessed in the IPCC Special Report on Global Warming of 1.5°C (2018)4. [Shock parameters illustrative of potential impact in 2050]

Scenario C

A scenario with failed future improvements in climate policy, reaching a temperature increase in excess of 4°C (relative to pre-industrial levels) by 2100 assuming no transition and a continuation of current policy trends. Physical climate change is high under this scenario, with climate impacts for these emissions reflecting the riskier (high) end of current estimates5. [Shock parameters illustrative of potential impact in 2100]

[1][Missing footnote text]. [2][Missing footnote text]. [3][Missing footnote text].

Schroders

Why not implementing the British Climate stress test scenario?

Impacts on investments from both physical and transition risk for Life and General Insurers

Sector	% of investment portfolio in following sectors	Assumptions	Transition Risks Scenario A	Transition Risks Scenario B	Transition Risks Scenario C	Physical Risks Scenario A	Physical Risks Scenario B	Physical Risks Scenario C
Fuel extraction[1]	Gas/Coal/Oil (inc. crude)	Change in equity value for sections of the investment portfolio comprising material exposure to the energy sector as per below:						
		Coal Oil Gas	- 45% - 42% -25%	-40% -38% -15%			-5%	-20%
Power generation[1]	Power transmission and delivery of natural gas and, renewables (production and transmission)	Coal Oil Gas Renewables (inc. nuclear)	-65% -35% -20% +10%	-55% -30% -15% +20%			-5%	-20%

Sector	% of investment portfolio in following sectors	Assumptions	Transition Risks Scenario A	Transition Risks Scenario B	Transition Risks Scenario C	Physical Risks Scenario A	Physical Risks Scenario B	Physical Risks Scenario C
Real Estate Assets (inc. CRE, rental and leasing, construction, infrastructure)[1]	Change in property value for assets materially affected by physical climate change risk[2]. Apply the price drop impact on mortgage valuations where relevant[3].	Global Average (inc. other regions) North America Europe Asia and Pacific	-10% -10% -5% - 20%				-15% -15% - 8% - 30%	- 30% - 30% -15% - 60%
Sovereign and Municipal bonds[4]	Sovereign bond credit ratings downgraded as countries stress their balance sheets in their need to mitigate impacts from physical climate change. Rating downgrade as a function of a country vulnerability to climate change (refer to Annex II)					- 20 to 0 basis points[1]	- 30 to - 5 basis points	- 70 to - 20 basis points
	US municipal bond yield increase as cities stress their balance sheets in their need to mitigate impacts from physical climate change. Rating downgrade applied to relevant US municipalities most affected.[5]					+ 0.5%	+ 5%	+ 20%
Other shares	Water utilities					-5%	-10%	-20%
	Other Sectors (excluding the sectors above)						-2%	-5%

Sector	% of investment portfolio in following sectors	Assumptions	Transition Risks Scenario A	Transition Risks Scenario B	Transition Risks Scenario C	Physical Risks Scenario A	Physical Risks Scenario B	Physical Risks Scenario C
Transport[2]	Manufacturers, warehousing freight and passenger industries: Automotive (Electric Vehicles and non-Electric Vehicles), Aviation, Marine and other inland transport assets (ports, airports and related assets)	Change in equity value for sections of the investment portfolio comprising material exposure to the transport sector as per below: Automotive non EV Automotive EV Marine (inc. assets like ports) Aviation (inc. assets like airports)	- 30% + 15% - 15% - 21%	- 10% + 50% - 10% - 18%			-5%	-10%
Energy intensive industries (materials/metals)[2]	Manufacture and first-order processing of coke, chemicals, cement, iron and related alloys	Proportion of the manufacturing portfolio relying on transporting/extracting/processing fossil fuels or heavily reliant on fossil-fuel energy (eg cement, steel)	-35%	-25%		-5%	-10%	-20%
		Other manufacturing	-15%	-10%				
Agriculture and Food Security[1]	Agriculture, forestry, fishing, dairy cattle, food logistics and retail	Change in equity value for sections of the investment portfolio comprising material exposure to agriculture and food security sector	-65%	-50%		-5%	-10%	-20%
		Proportion of the portfolio with income heavily reliant on transporting/trading/supplying products based on food (eg super-market chains.)	-15%	-10%			-5%	-10%

[1]UNEP FI (2019); Changing Course: a comprehensive investor guide to scenario-based methods for climate risk assessment, in response to the TCFD; and Meijl, H. Van, Havlik, P., Bodirsky, B., Dijk, M. Van, Doelman, J., Fellmann, T., Valin, H. (2017). Challenges of Global Agriculture in a Climate Change Context by 2050. JRC Science for Policy Report. https://doi.org/10.2760/772445.
[2]Refer to footnote no.1 in previous page.

ESG integration

What have to be the insurer CRO focus?

1 **The situation and the strategy**

1. Which % does take in consideration ESG risks?
2. How do you include ESG in your choice of new investment
3. Your % of green, social, governance, assets? (impact investment)
4. What is your carbon footprint?
5. How do you converge towards the 2 degree scenario?

2 **Governance to manage Climate & ESG risks embedded in the investments (Pillar II)**

1. The sustainable Investment policy: impact investing? Thematic investing? E or S or G? or all?
2. The choice of the ESG criteria/risks for corporate and governments for direct investments
3. The choice of ESG criteria/risks for delegated investments to choose third party asset managers and their products

3 **Risk management (Pillar I)**

1. Risk management of the ESG risks: follow up of the implementation
2. Measuring the impacts of the ESG integration on performance, risks and ESG externalities (Carbon footprint, non fossil electricity, etc.)
3. Stress testing the balance sheet

4 **Communication (Pillar III)**

1. Regulatory requirement
2. The corporate communication

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Annex

Action plan on financing Sustainable growth

One comprehensive strategy – three main objectives – ten actions

Reorienting capital flows towards sustainable investment	**Mainstreaming Sustainability into risk management**	**Fostering transparency** and **long-termism**

	Actions		
1	**Establish EU Sustainable taxonomy**	✓	COM is progressively developing the EU taxonomy. The technical details (screening criteria)are developed by the Technical Expert Group (TEG) that will deliver their report by Q2 2019.
2	**Create standards and labels**	⇨	COM explores the use of the EU Eco-Label framework for green financial products. By Q2 2019, the TEG will prepare a report on an EU Green Bond Standard building on current best practices. On the Eco-label, JRC has launched an open consultation (open until 25 January 2019).
3	**Foster investment in Sustainable projects**		COM explores measures that will improve the efficiency and impact of instruments aiming at investment support. A mapping on investment gaps and financing took place in Q3 2018, best practices for sustainable investments were exchanged on (inter-)national and EU level in Q4 2018.
4	**Incorporate sustainability in investment advice**	✓	COM will ensure that advisors will take into account the sustainable preference of clients. Draft delegated acts were published for Feedback in May 2018. COM reviewed stakeholder feedback and published the final version of the delegated act.
5	**Develop Sustainability benchmarks**	✓	COM will increase the transparency of sustainability benchmarks. The TEG is currently assisting the Commission in developing minimum standards for low-carbon benchmarks and minimum disclosure requirements for ESG benchmarks. It will deliver a report by Q2 2019.

Source: European Commission: Action Plan on Financing Sustainable Growth (2018).

Action plan on financing Sustainable growth

One comprehensive strategy – three main objectives – ten actions

Reorienting capital flows towards sustainable investment	**Mainstreaming Sustainability into risk management**	**Fostering transparency** and **long-termism**

	Actions	
6	**Integrate ESG in ratings and market research**	COM is gathering information on ratings and research. ESMA launched a formal consultation to update Guidelines related to disclosure of ESG factors by CRAs in the summer. ESMA will also report to COM on current practices in CRA market by Q2 2019. COM is preparing to launch a study on sustainability in research and ratings.
7	**Clarify institutional investors and asset managers duties**	COM is working on how to clarify the duties of asset managers, pension funds and insurance companies to ensure they consider ESG factors in their investment decision process and are more transparent towards end-clients.
8	**Incorporate Sustainability in prudential requirements**	COM will explore the feasibility of a green supporting factor when it is justified from a risk perspective to safeguard financial stability. COM has asked EIOPA to analyse the impact of solvency II on sustainable investments.
9	**Strengthen Sustainability disclosure and accounting**	COM is evaluating the current reporting requirements for companies. The TEG assists COM in integrating TCFD recommendations in the Non-Binding Guidelines, which will be updated by Q2 2019. COM will further analyse the impact of accounting rules (IFRS standards) on sustainable and long-term investments.
10	**Foster Sustainable corporate governance**	COM is exploring how improved corporate governance can enhance sustainability and is collecting evidence from the ESAs on short term market pressure arising from capital markets.

Source: European Commission: Action Plan on Financing Sustainable Growth (2018).

The legislative proposals

The most urgent actions from the AP were taken forward as legislative Proposals in May 2018.

1 **Establish EU Sustainable taxonomy**	**Taxonomy Proposal:** Proposal setting out criteria to determine the environmental sustainability of an economic activity ('taxonomy').
5 **Develop Sustainability benchmarks**	**Benchmark Proposal:** Proposal to create two new categories of benchmarks as well as minimum disclosure requirements for ESG benchmarks.
7 **Clarify institutional investors and asset managers duties**	**Disclosure Proposal:** (i) introduce consistency on **how institutional investors and asset managers should integrate sustainability** in investment decision-making processes; (ii) increase transparency towards end-investors.
4 **Incorporate Sustainability into financial advice**	The Commission published the **final** version of the delegated act.

Source: European Commission.

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What is the EU taxonomy?

EU Taxonomy is a list of economic activities with performance criteria for their contribution to six environmental objectives.

EU Taxonomy IS	EU Taxonomy IS NOT
A list of economic activities and relevant criteria	A rating of good or bad companies
Flexible to adapt to different investment styles and strategies	A mandatory list to invest in
Based on latest scientific and industry experience	Making a judgement on the financial performance of an investment – only the environmental performance
Dynamic, responding to changes in technology, science, new activities and data	Inflexible or static

Environmental objectives

1. Climate change mitigation
2. Climate change adaptation
3. Sustainable use and protection of water and marine resources
4. Transition to a circular economy, waste prevention and recycling
5. Pollution prevention and control
6. Protection of healthy ecosystems

EU taxonomy is an encyclopedia

Source: European Commission.

Intended impact of an EU taxonomy

Market practice

Different taxonomies among Member States and institutions hinder cross-border capital flows

Costs for real economy to raise capital and for financial institutions to provide clarity

Burdensome for investors to check and compare information

Hampering investments into a more sustainable economy

EU Sustainable taxonomy

A harmonised **list of economic activities** that can be considered **environmentally sustainable** for investment purposes

Intended impact

- **Certainty for economic actors** and financial market participants
- **Protection of private investors** and mitigation of Greenwashing
- **Easier for real economy** to raise capital
- **Mitigation of** market fragmentation
- **Basis for further policy action**

Reorienting capital flows towards sustainable investment

Source: European Commission.

Key elements of the February 2019 political agreement between co-legislators

EU Climate Transition Benchmarks	The EU Climate transition benchmarks brings the resulting benchmark portfolio on a **decarbonisation trajectory**, meaning a **measurable, science-based and time-bound trajectory to reduce carbon emissions**.
EU Paris-aligned Benchmarks	The EU Paris-aligned Benchmarks brings the resulting benchmark portfolio's carbon emissions **in line with the Paris Climate Agreement goal to limit the global temperature to 1.5°** compared to pre-industrial levels.
Benchmarks ESG Disclosures	The Benchmarks ESG disclosures ensures that **ESG and climate-related considerations can be integrated in the valuation** of assets across various asset classes.
Other key elements	– Extension of the transitional period for providers of 'critical benchmarks' — interest rates such as Euribor or EONIA — by two extra years until 31 December 2021 – Extension of the period for mandatory contributions/administration to five years – Extension of the transitional period also covers the possibility for benchmarks administered in third-countries to be used in the EU for another two years

Source: European Commission.

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Tackling sustainability

EU action plan

What is the EU doing?

The EU is acting: 3 pieces of legislation presented in May 2018 will incentivise and channel private sector investment into green and sustainable development. This follows a 10-point Action Plan for sustainable finance.

1. **A unified EU green classification system – 'taxonomy'**
To determine if an economic activity is environmentally sustainable based on harmonised EU criteria. The European Parliament adopted its report in arch 2019. In June 2019, the Technical Expert Group on Sustainable Finance published he first classification system – or taxonomy – for environmentally-sustainable economic activities. This aims to provide guidance for policy makers, industry and investors on how best to support and invest in economic activities that contribute to achieving a climate neutral economy.

2. **Sustainability-related disclosures**
Enhanced disclosures by manufacturers and distributors of financial products to end-investors. Financial market participants will have o disclose to their clients the impact of sustainability on financial returns and the impact of their investment decision on sustainability. The European Parliament and the Council reached a political agreement in March 2019.

3. **Climate benchmarks and benchmarks' ESG disclosures**
Two new categories of climate benchmarks o orient the choice of investors who wish to adopt a climate-conscious investment strategy. Political agree me 1t read1ed by European Parliament and Council in February 2019. The TEG published an interim report on climate benchmarks and benchmark's environmental, social and governance (ESG) disclosures, and launched call for feedback in June 2019.

Disclosure regulation

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Tackling sustainability

EU action plan

Other initiatives

Strengthening international cooperation
On-going discussions with third countries to scale up sustainable finance globally.

EU standards and labels
Creating EU standards and labels for green financial products. The Tech 1ical Expert Group on Sustainable finance published a report on an EU Green Bond Standard in June 2019.

Preferences on sustainability
Requiring financial firms to take into account their clients' preferences on sustainability when giving investment advice or managing their assets.

Enhanced transparency in corporate reporting
In June 2019 the European Commission adopted new guidelines for companies on how to report climate-related information, consistent with the Non-Financial Reporting Directive and integrating the recommendations o the Financial Stability Boards Task Force on climate-related Financial Disclosure.

Integrating Sustainability
The European Securities and Markets Authority, the European Banking Authority, the European Insurance and Occupational Pensions Authority have already delivered their advice to the Commission on sustainability risk integration in financial decision-making, and on the need for a change in banks and insurers' prudential treatment of assets with a favourable environmental and social impact (in addition to sustainability-related actions on their own initiative.

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