Schroders

Sustainable Investing: Too important to ignore

November 2019

Environmental, Social and Governance is referred to as ESG throughout the presentation.

Sustainability

A perfect storm

Accelerating change

Average tenure in the S&P 500 has dropped from 50 years to under 15 years over the last five decades

Regulatory scrutiny

Sustainable finance at the forefront of policymakers' agenda

Global challenges

Require finance's involvement to solve

Client pressure

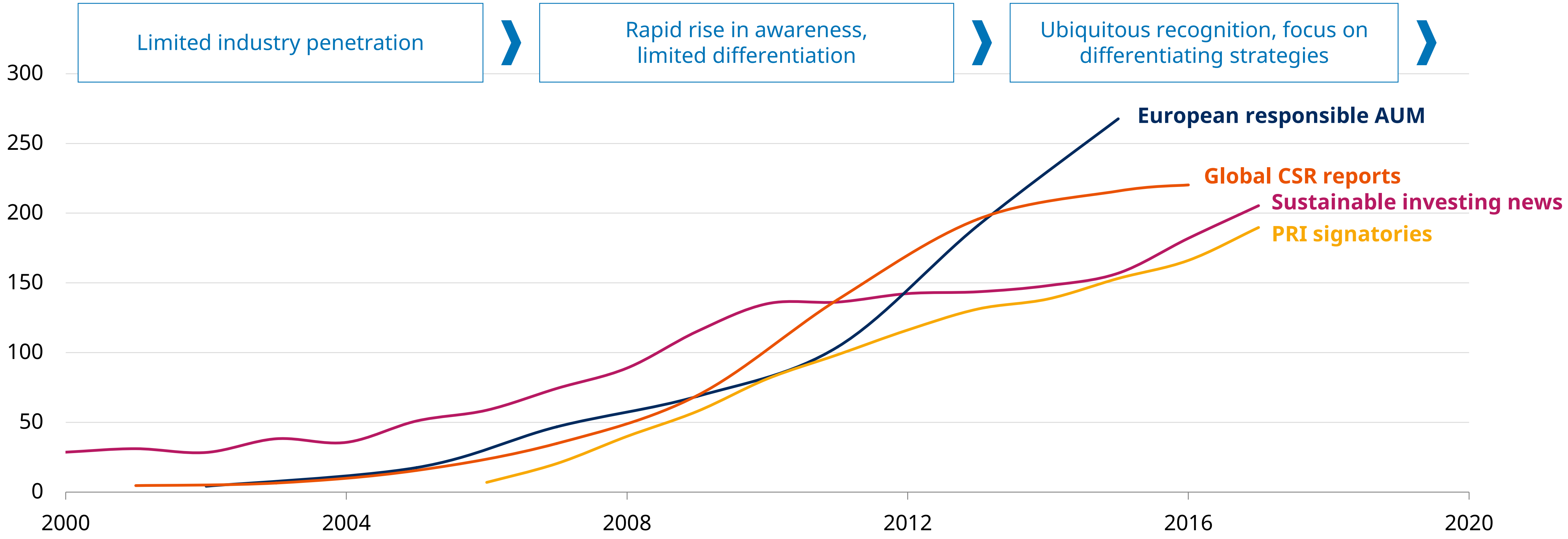
Savers are increasingly focused on sustainability-related issues

Source: Schroders

Sustainable investing is no longer niche

Interest, demand and sophistication are on the rise

Indexed, 2007 to 2017 average = 100

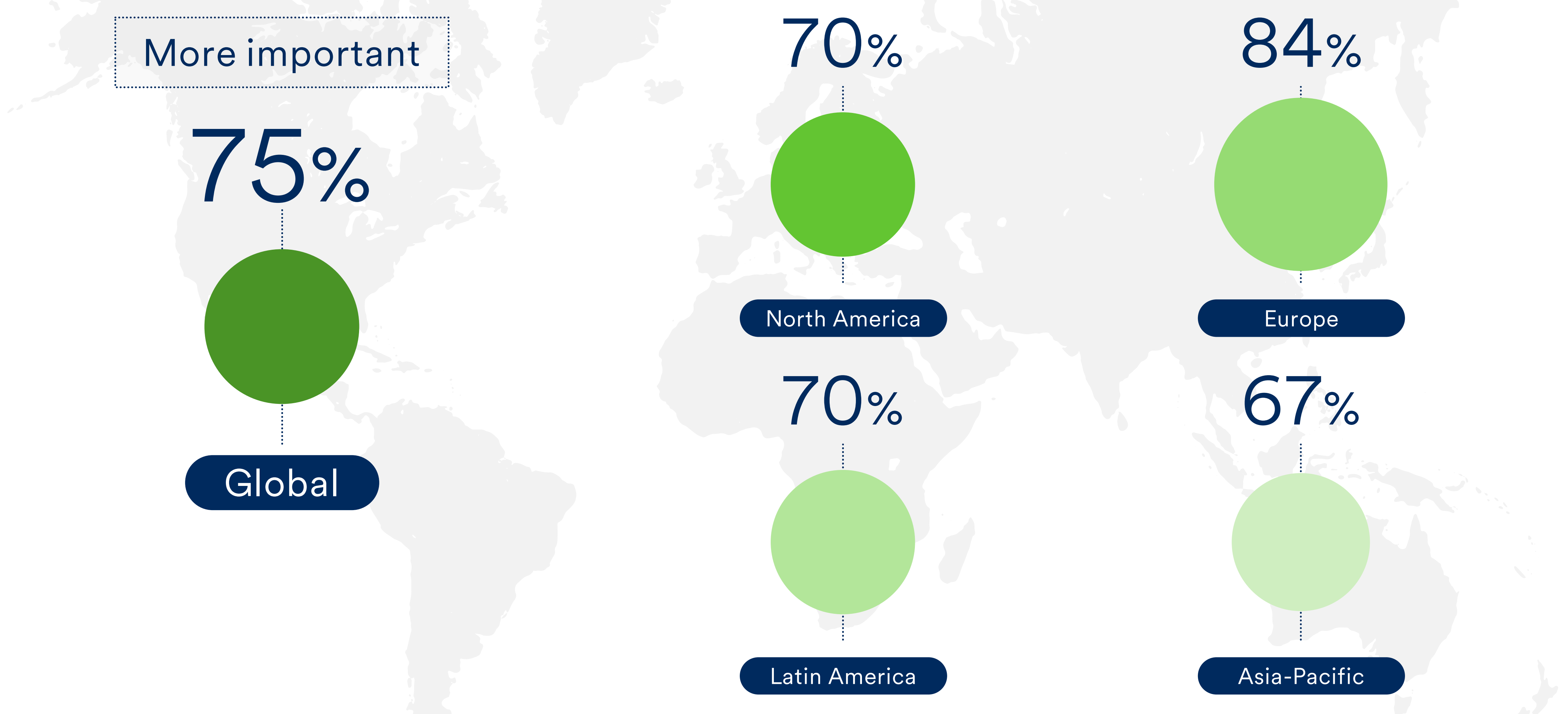


Source: Hightail (news search for articles containing 'sustainable investing' relative to all articles referring to 'investing', Principles for responsible investment (number of signatories) and EuroSIF (combined AUM invested in different ESG strategies, adjusted for double-counting).

Schroders

Sustainable investing growing in influence

Sustainability set to play greater role over next five years



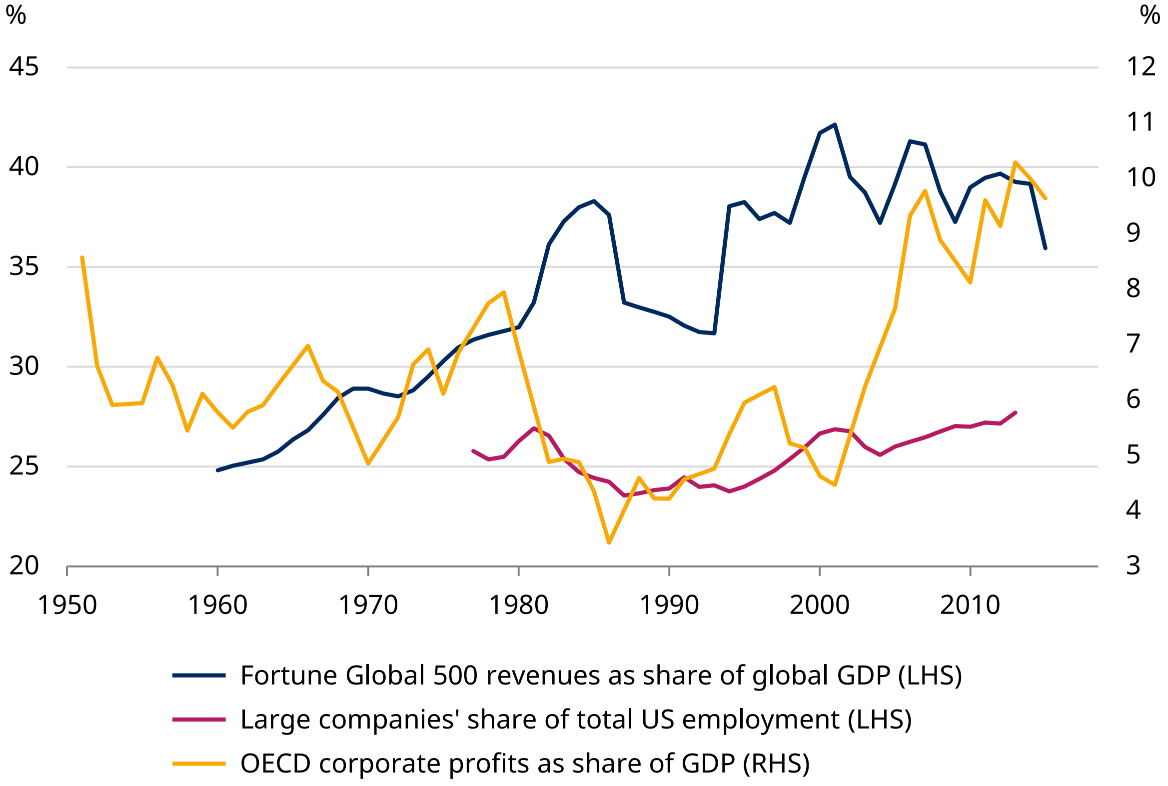
Source: Schroders Institutional Investor Study 2019. How do you expect the role of sustainable investments to change in the next five years?

Schroders

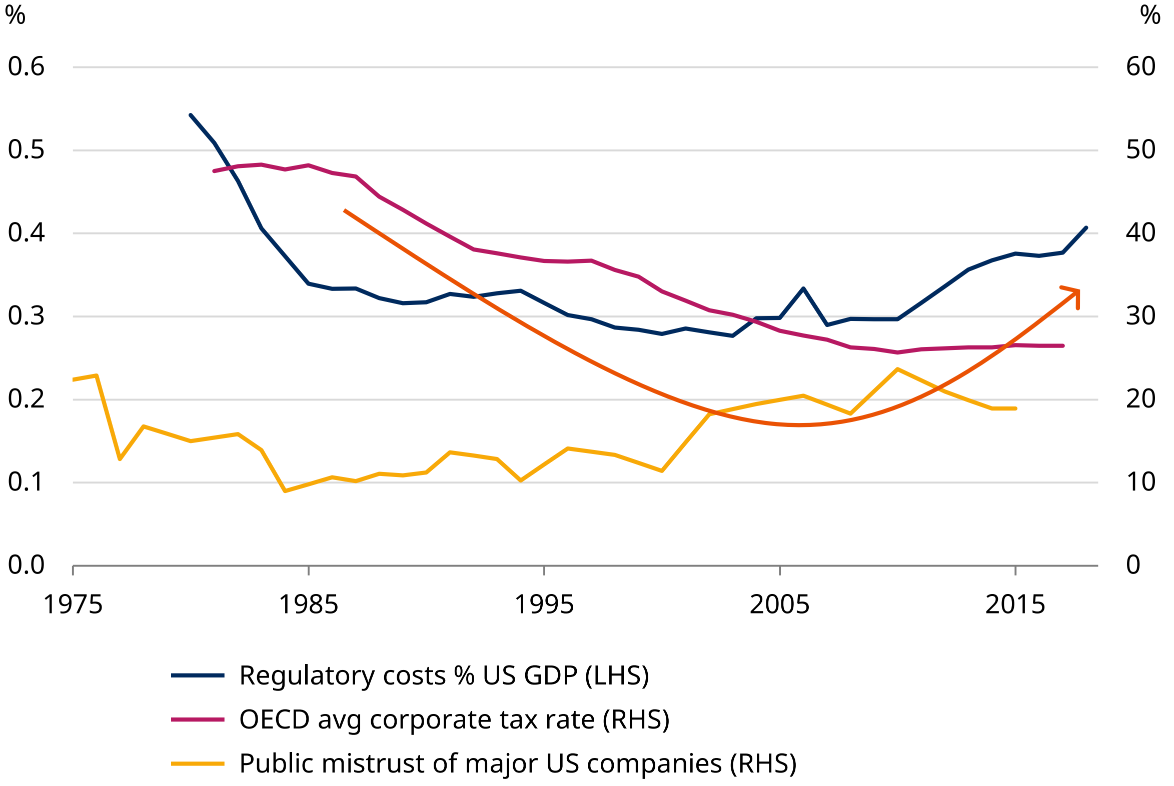
Social impacts are becoming financial costs

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



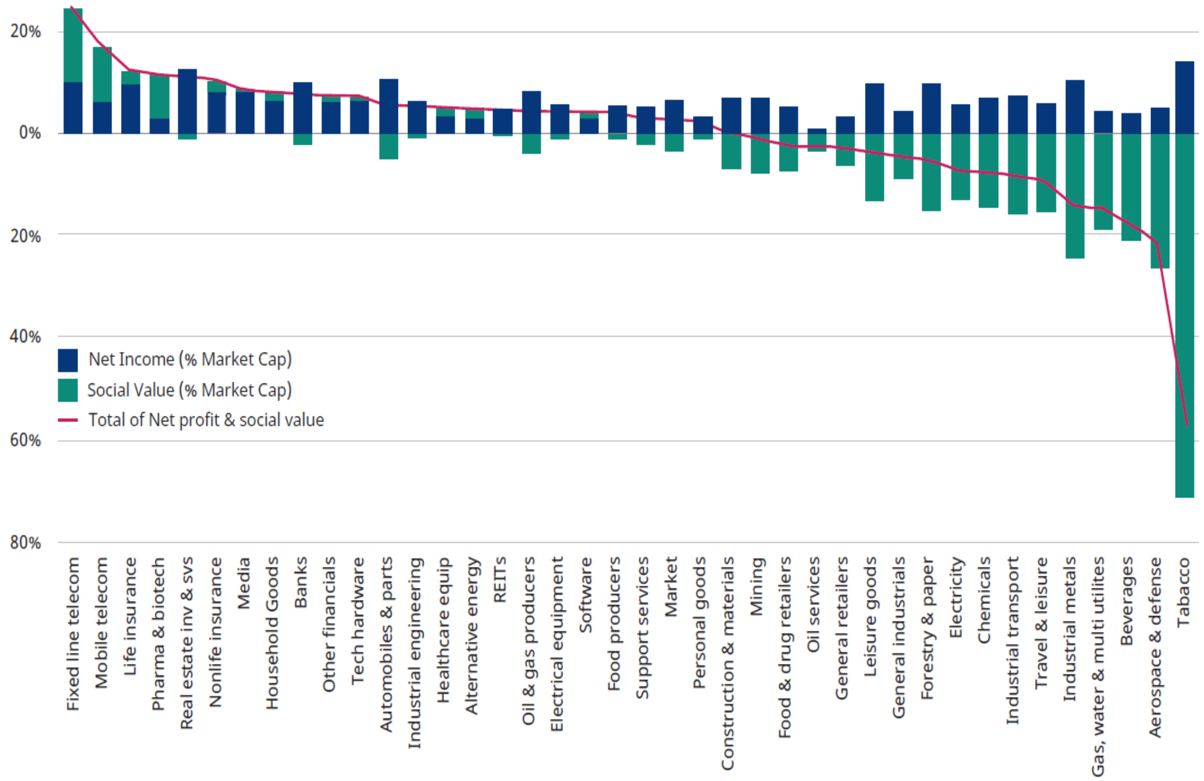
Source: Fortune, IMF, OECD, BEA, Gulling et al., OECD tax database, General Social Survey, American Action Forum, Heritage Foundation, Schroders calculations and estimates. Note: data from Fortune is not available prior to the 1990s; we have estimated the equivalent values, using data from Thomson Reuters.

The risks are real

Companies are facing significant headwinds

- Companies are facing growing social and regulatory headwinds
- The scale of the externalities companies impose has grown so large that in many industries, **those costs exceed their total earnings.**
- Earnings listed companies generate for shareholders currently total US$4.1 trillion, which **would fall by 55%** to US$1.9 trillion if those social impacts crystallized as financial costs.
- **One third of companies would become loss-making.** The risk to profit pools and competitive positions is clear.

Social value & net profit, both as a % of MV



Source: Schroders, SustainEx

But why is sustainability so difficult?

Variety of definitions

Off the shelf solutions have not added alpha

Complex issues covered

Low transparency

Limited understanding of risk around issues like climate

Source: Schroders.

The broad spectrum of sustainability and ESG

Not all sustainability is the same

Financial benefits ——— **Social benefits**

Integrated

- ESG research
- Voting
- Engagement

Responsible

- Best in class
- Controversy avoidance

Screened

- Excluding companies involved with certain activities or industries

Impact

- Specific social benefit
- Potential for financial return

Philanthropy

- Address societal challenge(s)
- No financial return for investors

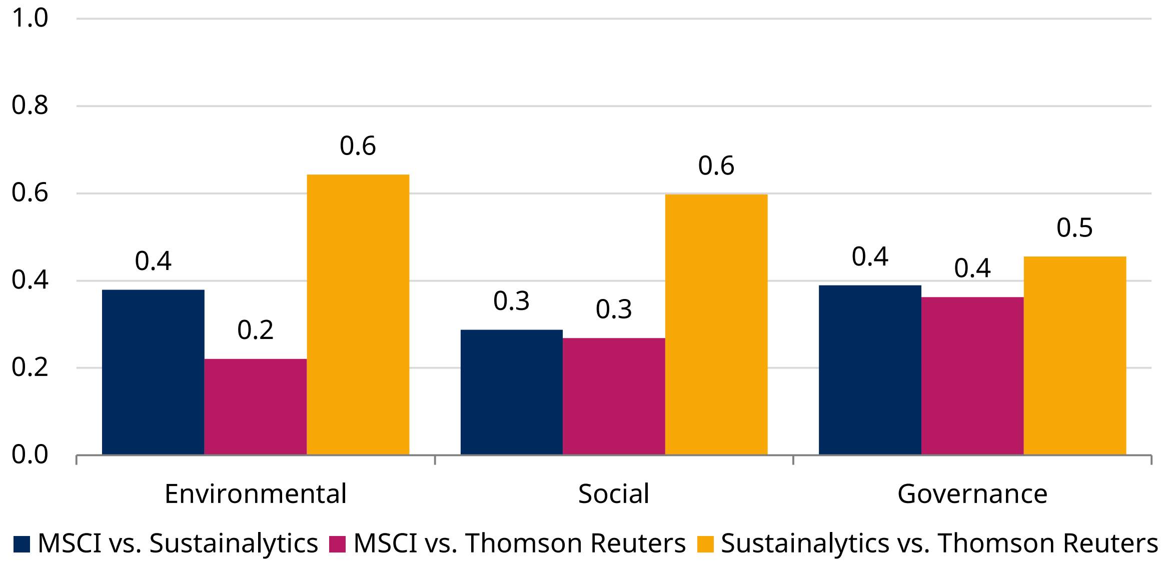
ESG analysis: the need for a proprietary approach

Third party ratings are backwards-looking, opaque and inconsistent

Poor predictor of controversies

Average rating pre and post **controversy:** 3.69 → +1.06 → 4.76

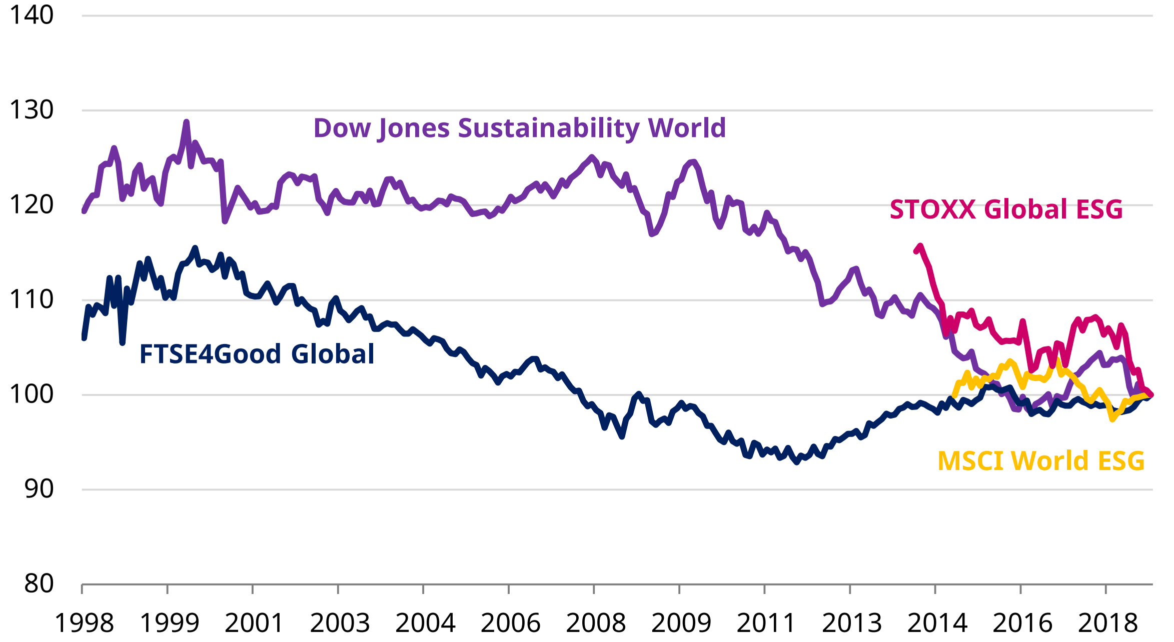
Correlation between scores[1]



Passive ESG has a poor track record

Performance of common ESG indices relative to conventional equivalent[2]

Indexed, latest – 100



Ratings are opaque and inconsistent

Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested.

[1]Source: Thomson Reuters, Schroders calculations. [2]Source: Thomson Datastream, as at 1 November 2018.

Schroders

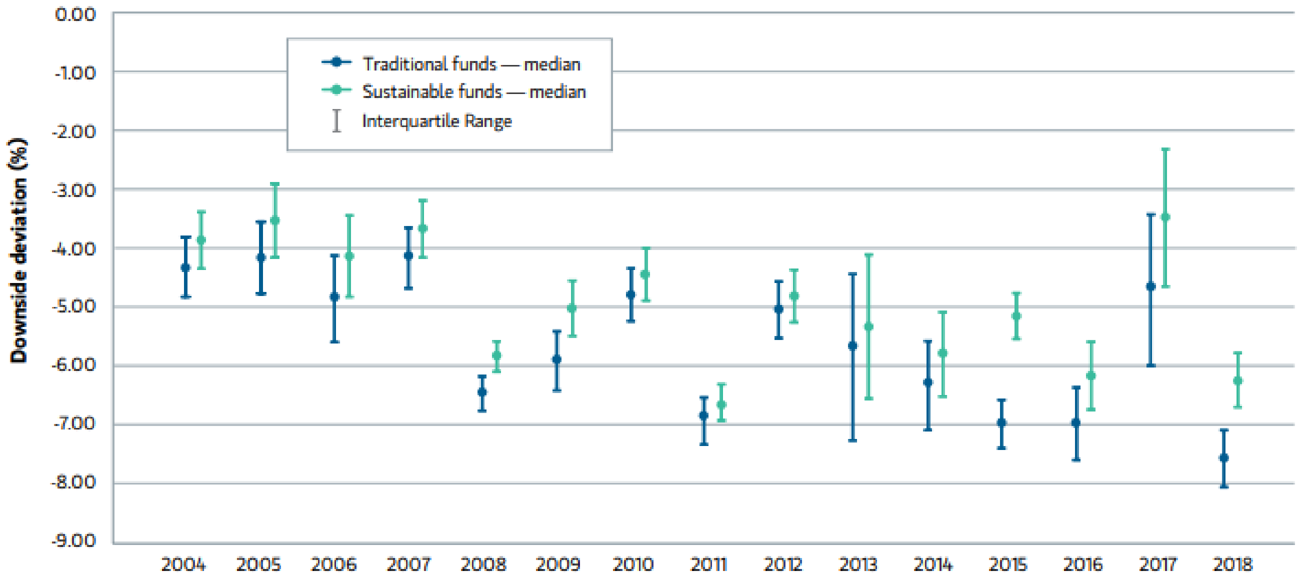
Key findings

- ✓ No consistent and statistically significant difference in total returns
- ✓ Sustainable funds experienced a 20% smaller downside deviation than traditional funds

The proof

Performance of 11,000 mutual funds 2004 - 2018

Median downside deviation of sustainable and traditional funds

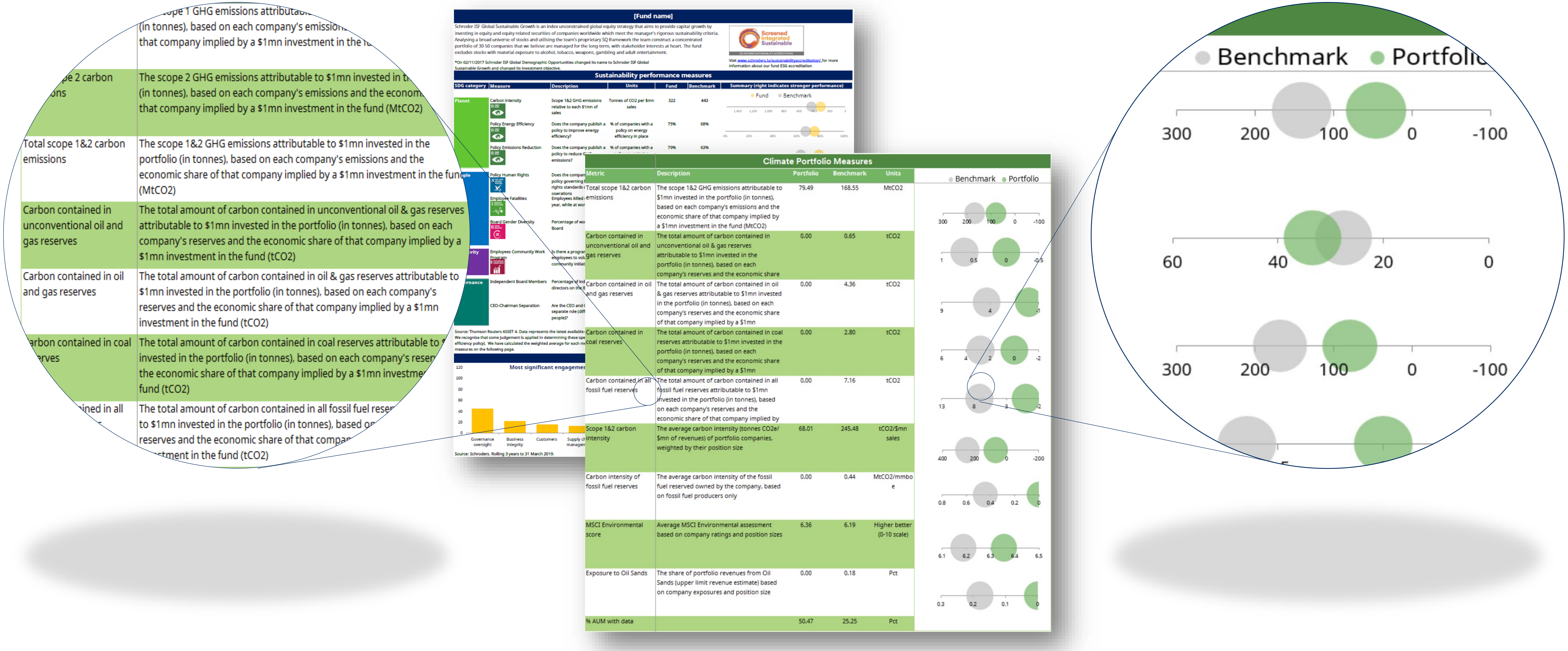


Downside Deviation															
Sustainable Funds	-3.86	-3.52	-4.14	-3.66	-5.83	-5.03	-4.44	-6.66	-4.80	-5.32	-5.80	-5.14	-6.15	-3.47	-6.24
Traditional Funds	-4.29	-4.16	-4.82	-4.12	-6.43	-5.87	-4.79	-6.88	-5.02	-5.66	-6.30	-6.96	-6.96	-4.59	-7.56
Difference (Sustainable - Traditional)	0.43 **	0.64 *	0.68 **	0.46 **	0.60 *	0.84 **	0.35 **	0.22	0.22 ***	0.34 **	0.51 ***	1.82 ***	0.80 ***	1.11 ***	1.32 ***
Statistical Significance	99%+ ***			95%+ **			90%+ *								

Source: Morgan Stanley Institute for Sustainable Investing “Sustainable Reality: Analyzing Risk and Returns of Sustainable Funds”, 2019.

Reporting

Portfolio level reporting with different sustainability lenses



Source: Schroders for illustrative purposes only.

Schroders

Sustainability at Schroders

Our approach

ESG integration

We seek to integrate ESG factors into our research and investment decisions across asset classes

17

dedicated ESG specialists

With

>150 years[1]

combined investment experience

A+

UN PRI Assessment[2]

Engagement

We actively engage with companies on material ESG issues to enhance our analysis or to seek improvements in performance

2,200+

Engagements

Across

50

countries globally

Voting

We assess resolutions and apply our voting policy and guidelines as outlined in our ESG policy

5,227

company meetings voted

99%

valid resolutions voted

Tools

We develop proprietary tools to help translate structural trends into actionable investment implications

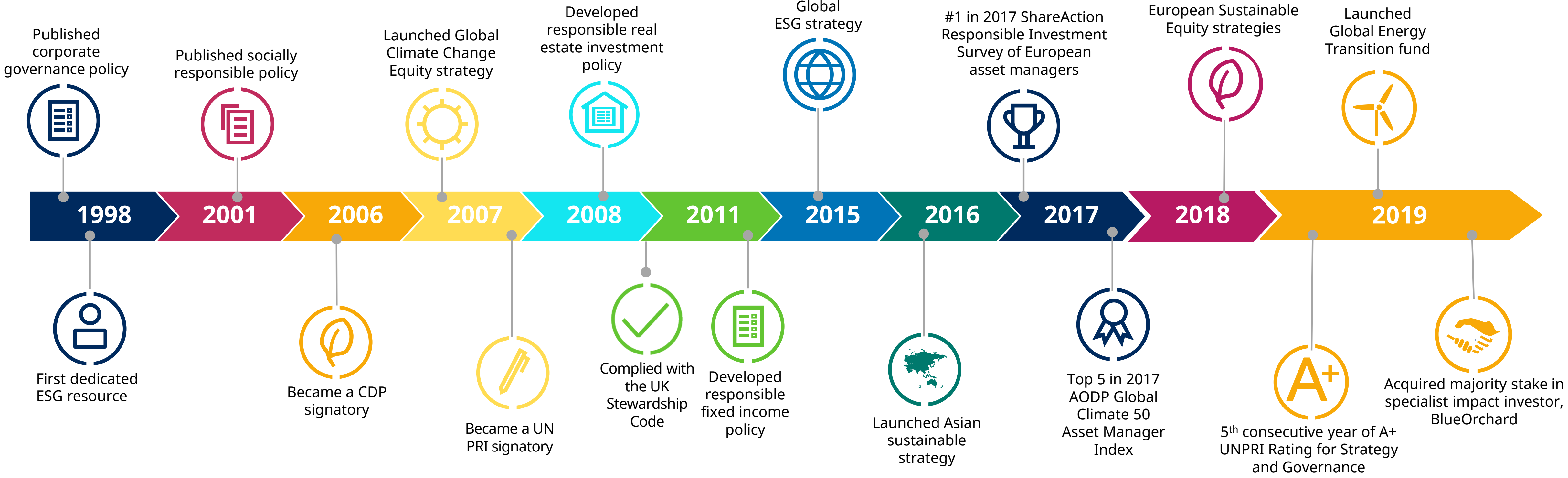
10

Internal dashboards for our analysts and portfolio managers

Source: Schroders, as at 30 June 2019 unless otherwise stated. [1]As at 4 March 2019. [2]PRI, 2015, 2016, 2017, 2018 and 2019 Assessment Reports.

Sustainability at Schroders

The journey to be a market leader



'Issues such as climate change, resource scarcity, population growth and corporate failure have put responsible investment at the forefront of investors' minds. We believe that companies with a strong environmental, social and governance ethos tend to deliver better results for our clients.'

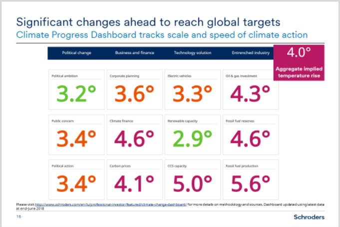
Peter Harrison, Group Chief Executive, Schroders plc

Source: Schroders, as at 30 July 2019. A+ based on PRI Assessment. Not all strategies are available to US investors.

[1]Sustainable Multi-Factor Equity

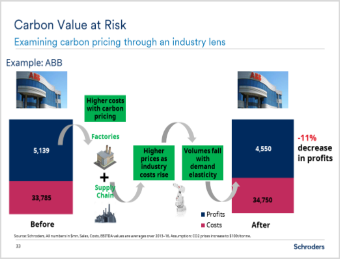
Climate change: a holistic approach

Climate Progress Dashboard



Analysis of future temperature changes given the current rate of progress across policy, finance, innovation and incumbent industry.

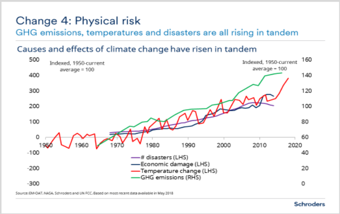
Carbon VAR



Systematic analysis of transition risk assuming a $100 carbon price.

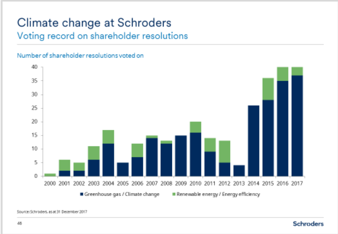
Allows for better like for like comparisons given supply chain analysis.

Physical Risk



Forecasts of medium term exposure to climate reacted weather events.

Engagement

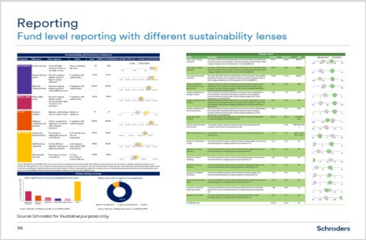


Pressure on companies to raise transparency, adopt TCFD and have scenario planning.

Member of the Climate Action 100, Powering Past Coal Alliance.

Non-executive director education.

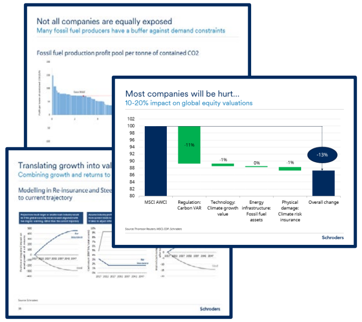
Reporting and Transparency



Firm-wide TCFD commitment.

Reporting tool with >50 environmental indicators.

Future Areas of Research



Climate growth exposure.

Fossil fuel company exposure.

Tying it all together.

Source: Schroders

Schroders

The benefits of a sustainable approach

Investment insight

A deeper understanding of how the world is changing that can evolve over time

Delivering alpha

A forward looking approach to sustainability that reflects economic evidence

Better stewardship

Active ownership to mitigate the risks that can not be eliminated

Investment focused

Products that meet beneficiary expectations in performance and sustainability terms

The views and opinions contained herein are those of the Schroders Sustainable Investment team and are subject to change. No investment strategy or technique can guarantee future results.

Schroders

Questions?

Important information

Marketing material for professional investors and advisers only

The views and opinions contained herein are those of the Sustainable Investment Team, and may not necessarily represent views expressed or reflected in other Schroders communications, strategies or funds.

This document is intended to be for information purposes only and it is not intended as promotional material in any respect. The material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Any data has been sourced by us and is provided without any warranties of any kind. It should be independently verified before further publication or use. Third party data is owned or licenced by the data provider and may not be reproduced, extracted or used for any other purpose without the data provider's consent. Neither we, nor the data provider, will have any liability in connection with the third party data.

The material is not intended to provide, and should not be relied on for, accounting, legal or tax advice, or investment recommendations. Information herein is believed to be reliable but Schroders does not warrant its completeness or accuracy. No responsibility can be accepted for errors of fact or opinion. Reliance should not be placed on the views and information in the document when taking individual investment and/or strategic decisions. No responsibility can be accepted for error of fact or opinion.

Any references to securities, sectors, regions and/or countries are for illustrative purposes only.

Past performance is not a reliable indicator of future results, prices of shares and the income from them may fall as well as rise and investors may not get back the amount originally invested.

The forecasts included should not be relied upon, are not guaranteed and are provided only as at the date of issue. Our forecasts are based on our own assumptions which may change. We accept no responsibility for any errors of fact or opinion and assume no obligation to provide you with any changes to our assumptions or forecasts. Forecasts and assumptions may be affected by external economic or other factors.

Schroders will be a data controller in respect of your personal data. For information on how Schroders might process your personal data, please view our Privacy Policy available at www.schroders.com/en/privacy-policy or on request should you not have access to this webpage.

Schroders Institutional Investor Study 2018 was conducted between 1 – 30 June 2018. This study was commissioned by Schroders and undertaken by an independent research agency, CoreData Research, to study institutional investors across North America, Europe, Latin America and Asia to analyze their attitudes towards sustainable investments, investment objectives and risk. Respondents represent a variety of institutions, including pension funds, foundations, endowments and sovereign wealth funds. The 650 institutional respondents were sourced from 15 different countries and were split as follows: 175 in North America, 250 in Europe, 175 in Asia and 50 in Latin America.

Schroders Global Investor Study was conducted between 20 March – 23 April 2018. Schroders commissioned Research Plus Ltd to conduct an independent online study of over 22,000 people in 30 countries around the world, including Australia, Brazil, Canada, China, France, Germany, India, Italy, Japan, the Netherlands, Spain, UAE, the UK and the US. This research defines 'people' as those who will be investing at least €10,000 (or the equivalent) in the next 12 months and who have made changes to their investments within the last 10 years.

Issued in July 2019 by Schroder Investment Management Limited, 1 London Wall Place, London, EC2Y 5AU. Registered No. 1893220 England. Authorised and regulated by the Financial Conduct Authority. For your security, communications may be taped or monitored.