

An aerial photograph of a mountain slope that has been terraced into numerous horizontal steps. The terraces are covered with lush green vegetation, likely ferns and mosses. A waterfall cascades down the center of the slope, starting from a higher elevation and falling over several terraces before reaching a rocky stream bed at the bottom. The surrounding area is a dense forest of evergreen trees. The overall scene conveys a sense of natural beauty and sustainable land management.

Sustainable Investment

Kate Rogers
September 2021

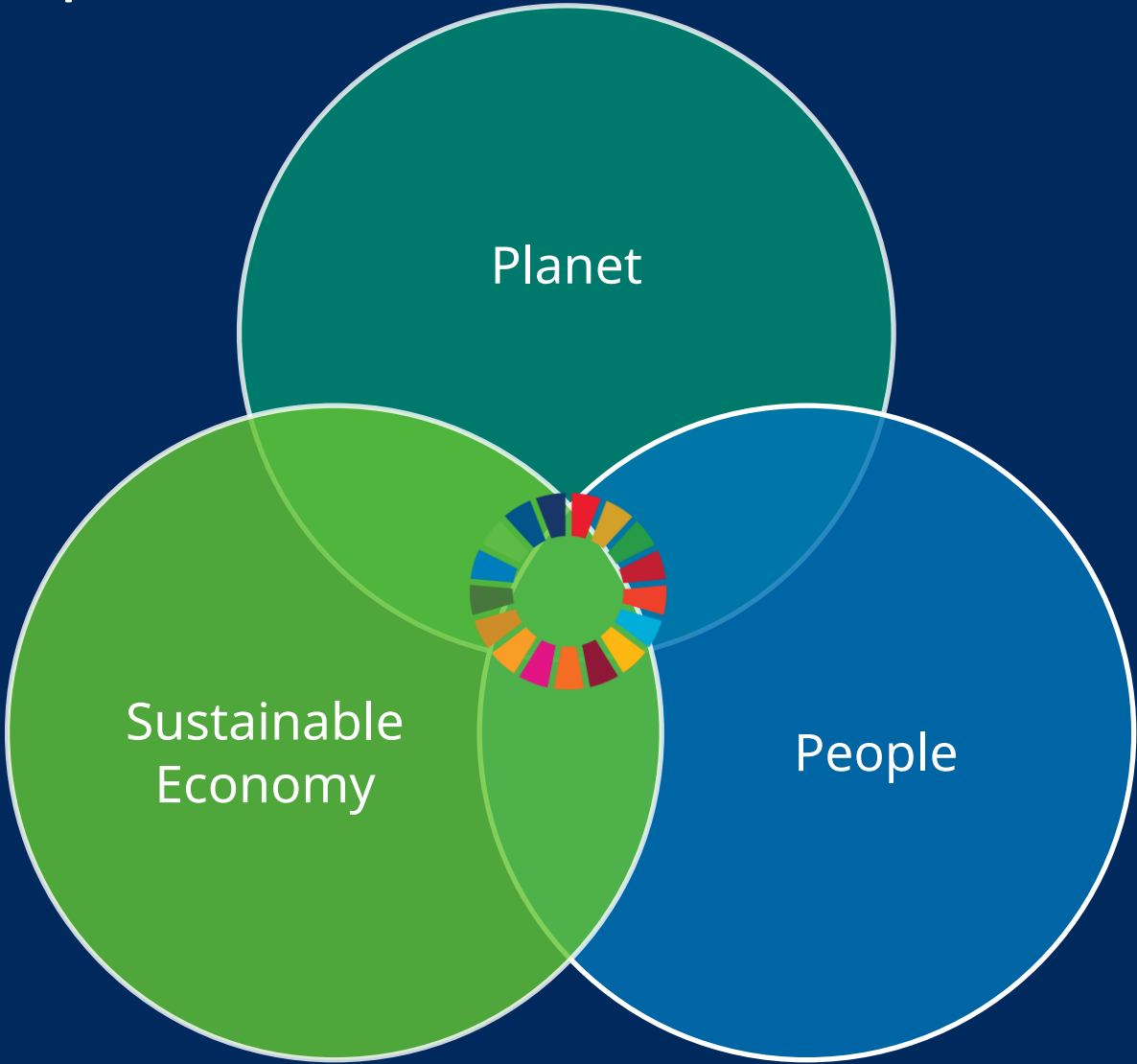
What is sustainability?

“meeting the needs of the present without compromising the ability of future generations to meet their own needs”

United Nations

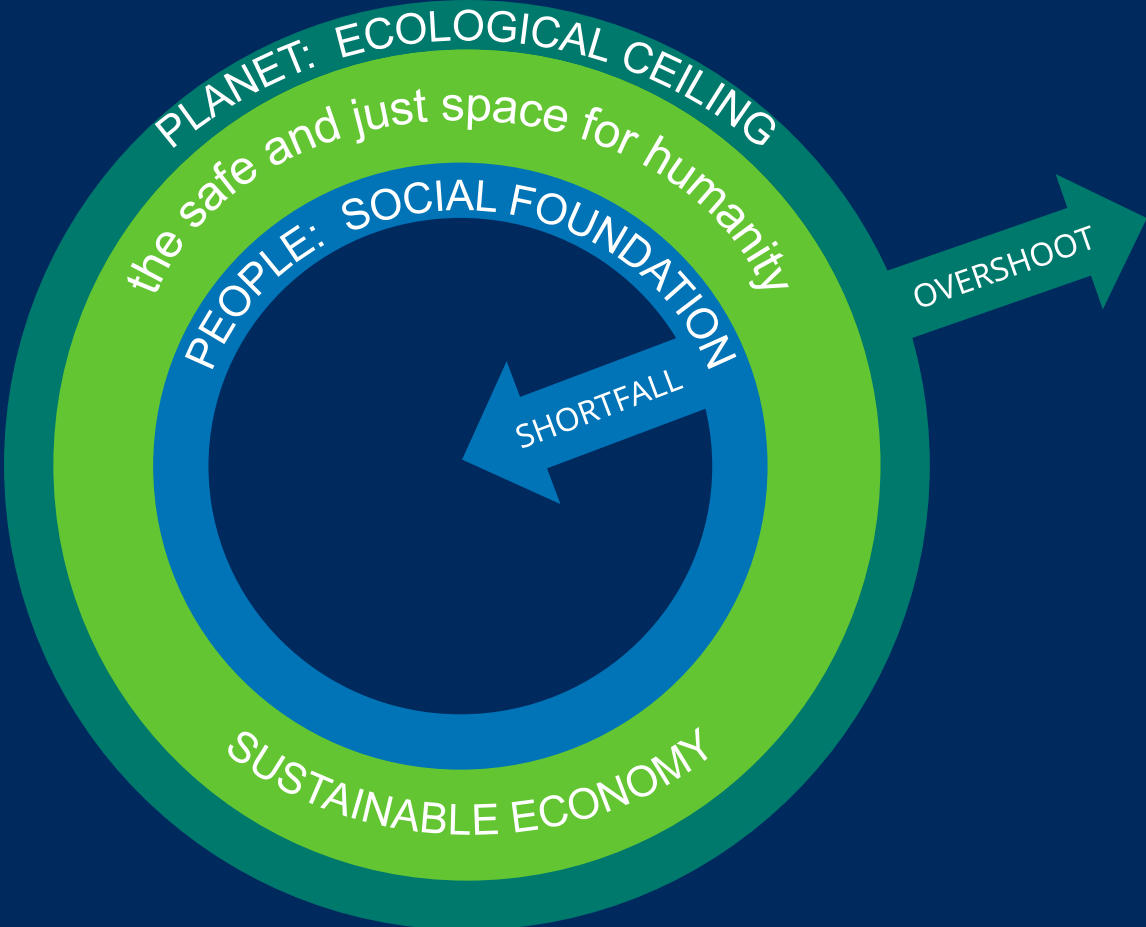
Sustainable development

Three pillars



Doughnut Economics

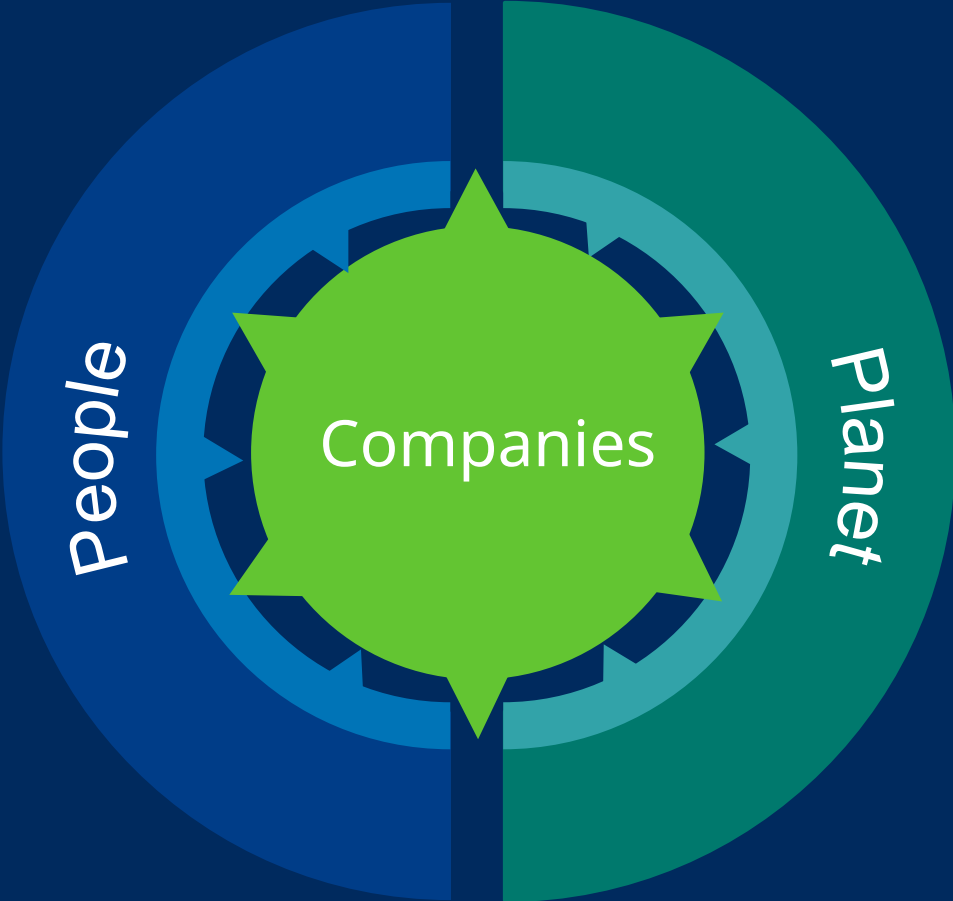
Kate Raworth



Source: Doughnut Economics, Kate Raworth

How does this relate to investments?

All companies have an impact on people and planet



Asset Management 3.0

Evolution towards three key dimensions of investing



Asset Management 1.0
Growth of professionally managed mutual funds



Asset Management 2.0
Development of risk models and quantitative strategies



Asset Management 3.0
Impact as the third dimension of investing

From Minority to Mainstream

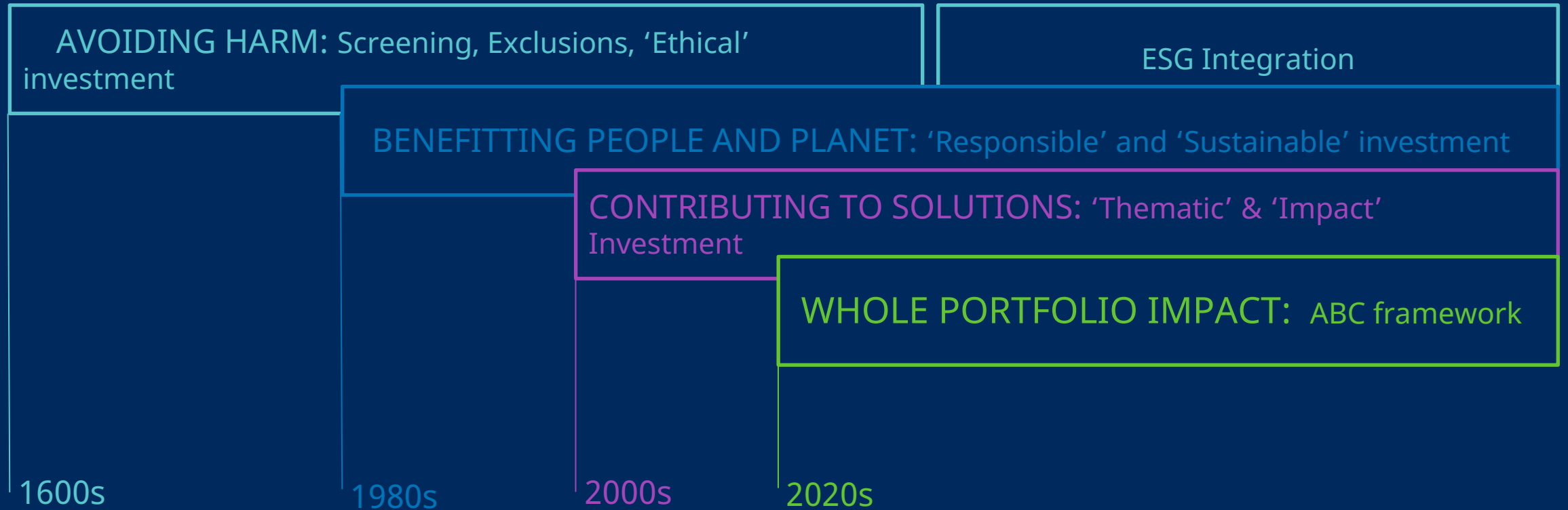
An increasing percentage of UK charities and Foundations have a policy to link mission to investment



We advocate **intentional investing**, which means that trustees have thought about the management and use of their charity's assets so that their approach supports the delivery of their charitable aims.

Source: Intentional Investing, 2015. Cazenove Charities 2020.

The evolution of sustainable investing



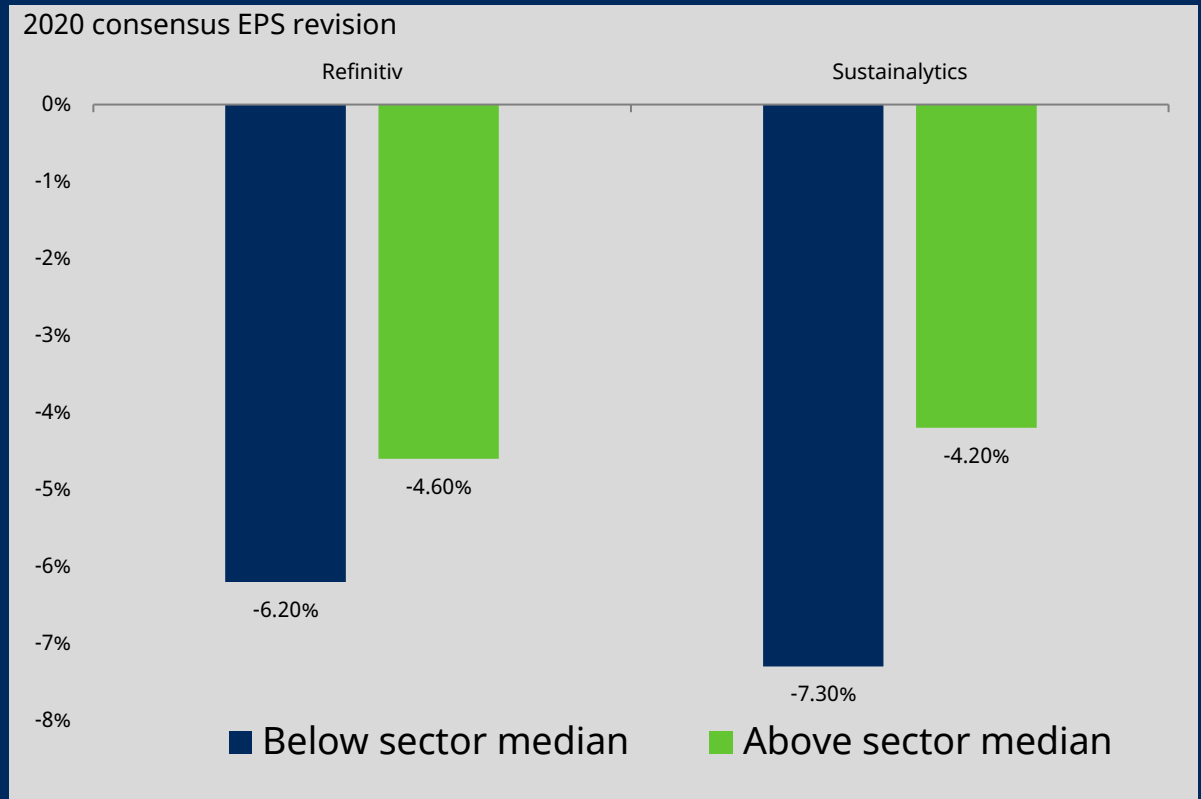
Reduced reliance on exclusions and more on integrating ESG risk factors. The next stage is measuring impact

Environmental, social and governance factors matter

Stronger ESG scores correlate to lower price declines



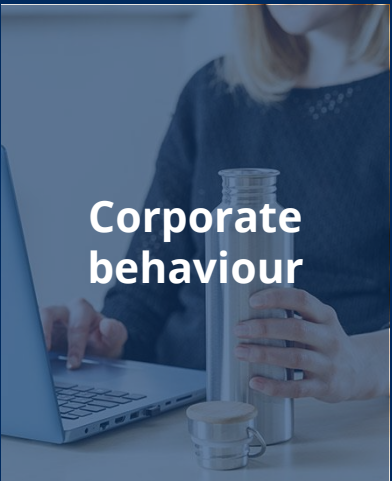
Coronavirus crisis: Companies with higher ESG scores saw lower earnings cuts in 2020



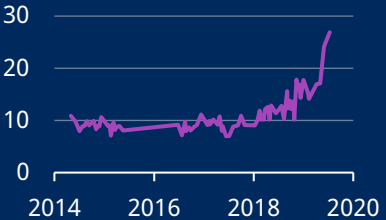
Past performance is not a guide to future returns.

Source: Schroders, Based on average of Environmental, Social and Governance scores applied to the universe of ESG-ranked stocks in the BofAML US coverage universe.

Social consciousness is leading to significant disruption



% who say environment is one of top three issues facing country



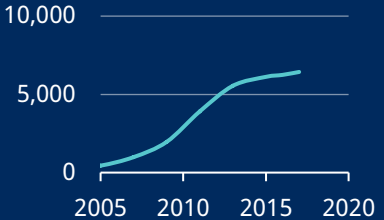
Environmental concern

of policy interventions



ESG regulations

of CSR reports published



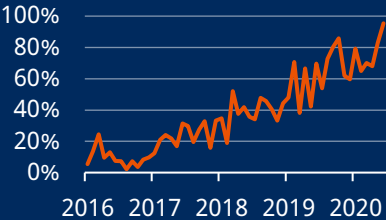
CSR reports published

Performance, indexed to 100



ESG leader outperformance

% client questionnaires containing ESG questions



RFP questions

Source: Bank of America, MSCI, Sustainalytics, Refinitiv, YouGov, GRI, Schroders.

Integrating ESG

Environmental, Social and Governance

- ❖ ESG refers to the environmental, social, and governance practices of an investment that may have a material impact on the performance of that investment.
- ❖ The integration of ESG factors is used to enhance traditional financial analysis by identifying potential risks and opportunities beyond technical valuations.
- ❖ The main objective of ESG integration remains financial performance.
- ❖ ESG data does not tell you if a company has a positive impact – beware of greenwashing.
- ❖ ESG ratings are not consistent – fundamental research is important.

ESG Integration is critical but not enough; we must also measure impact

Asset Management 3.0

Evolution towards three key dimensions of investing



Asset Management 1.0
Growth of professionally managed mutual funds



Asset Management 2.0
Development of risk models and quantitative strategies



Asset Management 3.0
Impact as the third dimension of investing

Now there is a new dimension to investing. Investors must understand the cost of a company's entire activities – they must value their stocks based on “impact-adjusted profits”

Peter Harrison, Schroders plc CEO, January 2021

Profit only tells half of the story: measuring **Impact**

A unique platform of forward-looking proprietary tools to measure the impact of investments



Benefitting people and planet

Measuring companies impacts on society and the environment

Quantifying the harm and benefits across people and planet

SustainEx



Contributing to solutions

SDG Alignment

Measuring companies' contribution to the 17 UN SDGs

Quantifying the impact industry has on meeting the key sustainable challenges

Source: Schroders.



Investing for a better future

Sustainable portfolios



Intention

- ✓ to meet your financial goals
- ✓ to have a positive impact on people and planet
- ✓ to align with your mission



Action

- ✓ **investing** to avoid harm, to benefit society and contribute to solutions
- ✓ **influencing** companies, managers and policy makers to make progress towards the sustainable development goals



Impact

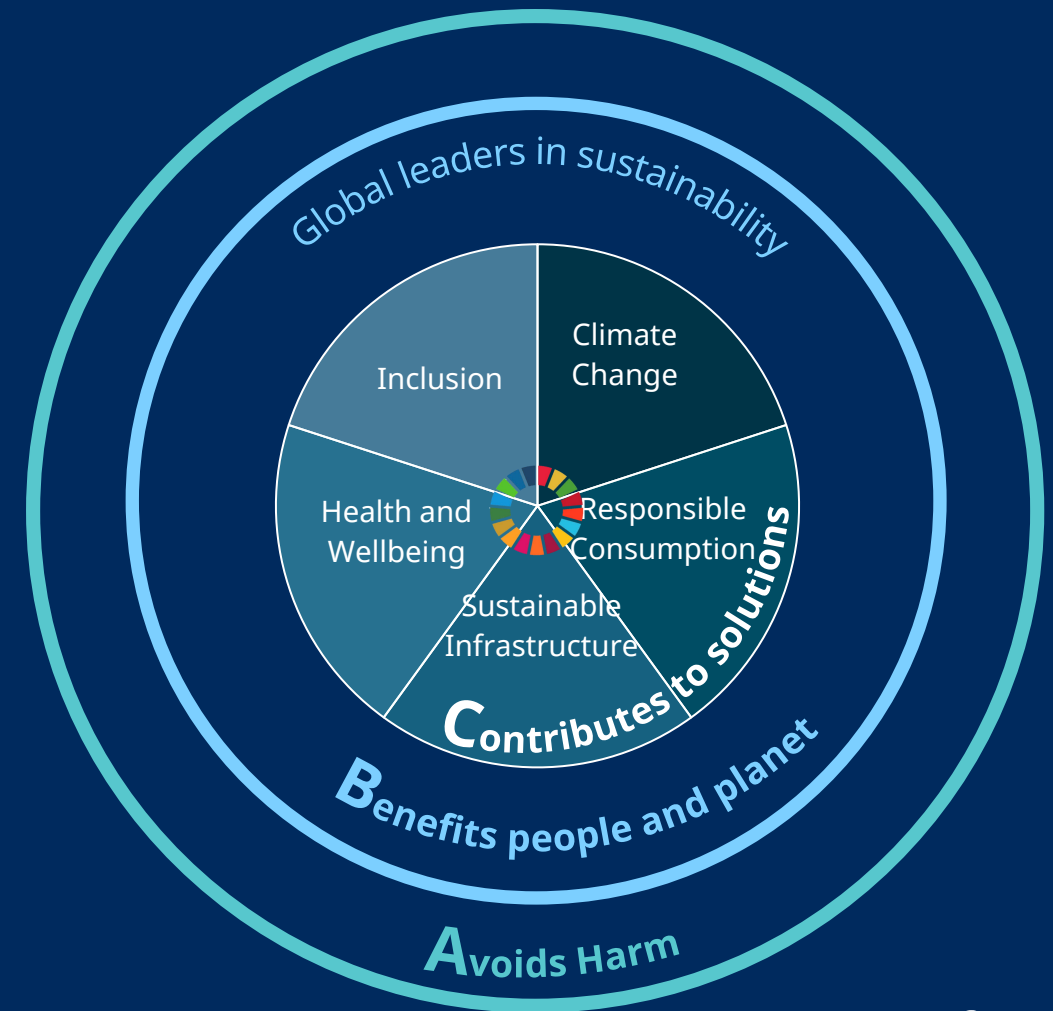
- ✓ measuring and managing the impact of your investments

Taking Action: Investing for a better future

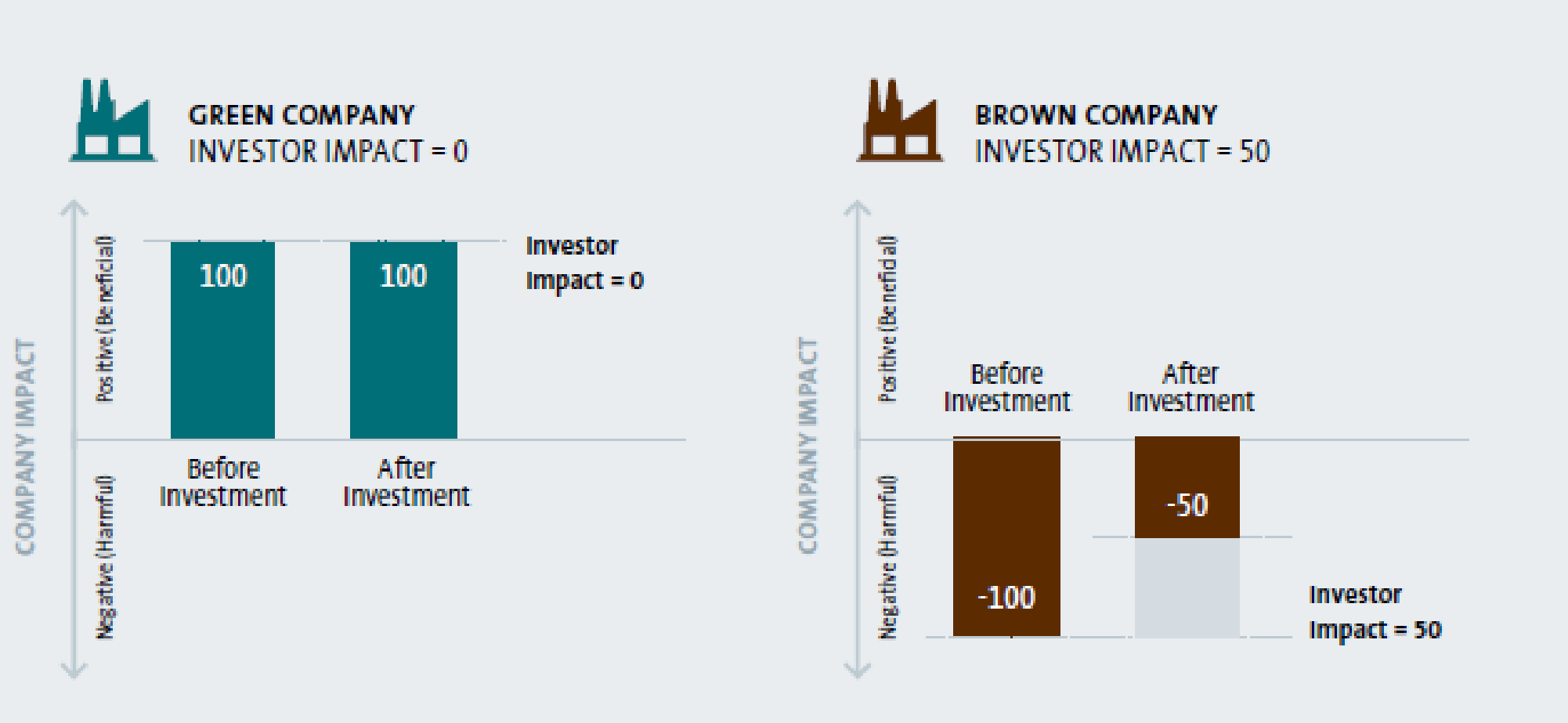
A whole portfolio approach

Adopting the Impact Management Project ABC framework

- A. **Avoid Harm** Ensuring all our investments avoid harm
- B. **Benefit people and planet** Investing in responsible businesses with positive impact
- C. **Contributes to solutions** Creating impact, tackling environmental and social challenges through thematic and impact strategies supporting the Sustainable Development Goals



Taking Action: Using influence to create impact



Source: University of Zurich, Center for Sustainable Finance and Private Wealth, The Investors Guide to Impact

Using our influence to create meaningful change

Net Zero

Intention

Achieve Net Zero by 2050

Action

- ✓ Founding signatory to the Net Zero Asset Managers initiative
- ✓ Committed to transition discretionary AUM to net zero by 2050
- ✓ Contacted all asset managers on our buy list to understand their transition plans
- ✓ Schroders CEO wrote to FTSE 350 chairs asking for detailed and fully costed transition plans

Fossil Fuel Financers

Intention

Reduce fossil fuel financing activity from banks

Action

- ✓ **Analysed over 150 global banks** to assess their contribution to fossil fuel financing and overall climate commitments
- ✓ **Engaging with over 30 banks** across Europe, North US and Asia identified as material financers of fossil fuels. Aiming to accelerate the transition away from fossil fuel expansion

Diversity

Intention

Promote gender equality

Action

- ✓ Wrote to all our US holdings with all-male boards to explain that if we failed to see evidence of change, we would **vote against the chair of the Nominees Committee** at the next AGM

Impact

- ✓ **30 of the 40 companies contacted** have appointed women to board positions

Source: Schroders/Cazenove, January 2021.

Influence: Scale matters

A+

UN PRI annual assessment¹

SDG 2000

World Benchmarking Alliance

Top 10

ShareAction Responsible Investment Survey of global asset managers²

#1 ESG Olympics



Integration

Embedded in investment decisions

21

Dedicated Schroders sustainability specialists

5

Dedicated wealth sustainability specialists



Engagement

Promoting positive change

2,150+

engagements in 2020

140+

Asset manager engagements 2020



Voting Power

Active owners

6,500+

company meetings voted

307

E & S resolutions voted on



Driving Progress

Meaningful influence

£500bn+

AUM across the group⁴

77%

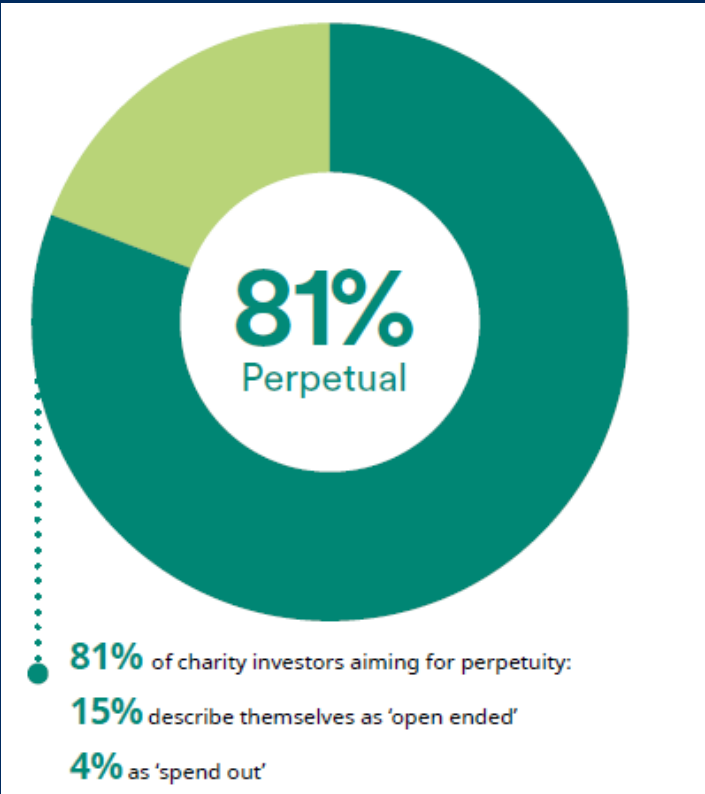
of company engagements resulting in change³

Source: Schroders, as at 31st Decemeber 2020, unless otherwise stated. ¹PRI, 2015, 2016, 2017, 2018, 2019, 2020 Assessment Reports.

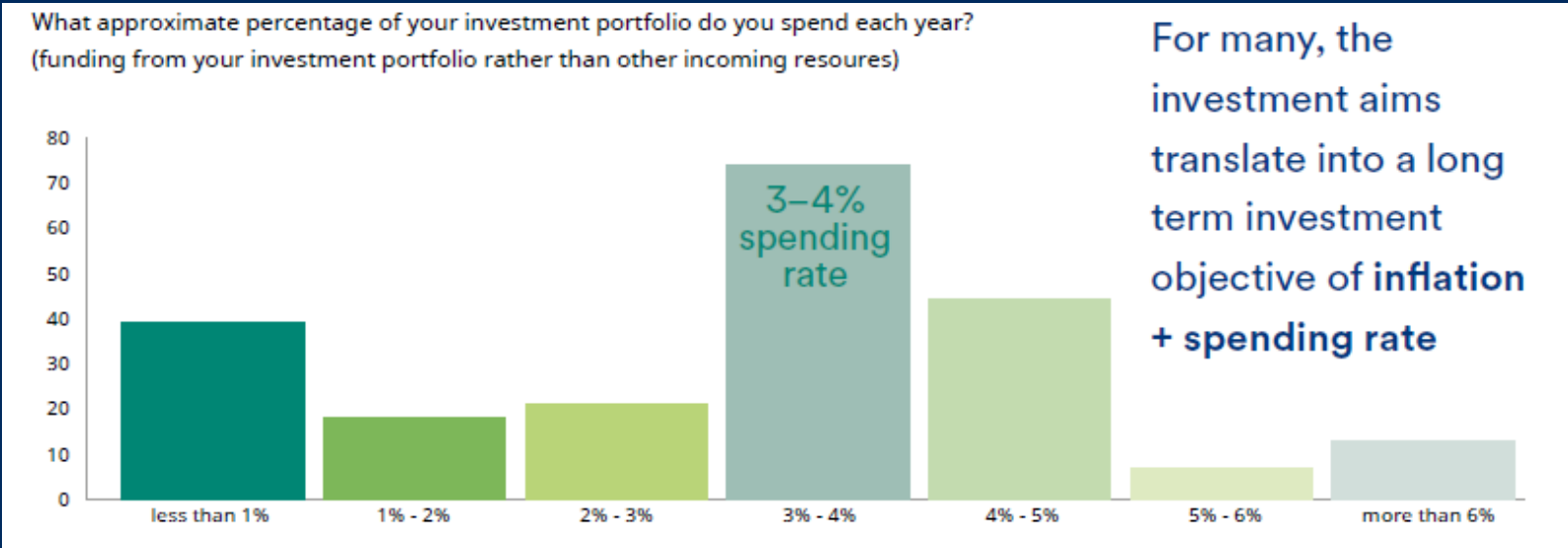
²ShareAction, 'Responsible Investment Performance of Global Asset Managers', March 2020. ³Schroders Annual Sustainability Report 2019, engagements initiated 5 years ago. ⁴As at 31st December 2020.

In practice: What defines Charity investments?

Perpetuity?



Generating returns?



Source: Cazenove Charities, Charity Investment Survey 2018

What defines Charity investments?

To contribute to the mission?

'We view the whole of our endowment as a tool to help us achieve our mission. Our aspiration is that all our investments should generate both financial returns and positive social and environmental returns.'

Friends Provident Foundation



90%

Market rate portfolio:
financial + positive
impact

10%

Social Investment portfolio:
accept lower returns or higher
risk for greater impact

Golden Bottle Trust

The 100% Impact Portfolio

“You have to look at both your portfolio and grant-giving and try to ensure they are maximising impact and doing the most good they can.”

Intentionality is the key distinction between impact and more general ESG investing.
“Impact investments set out to intentionally deliver an environmental or social return, alongside a financial return.”

Rennie Hoare, Golden Bottle Trust



Social impact portfolio:
Intentional positive impact without sacrificing financial returns

Source: Golden Bottle Trust, Cazenove Capital

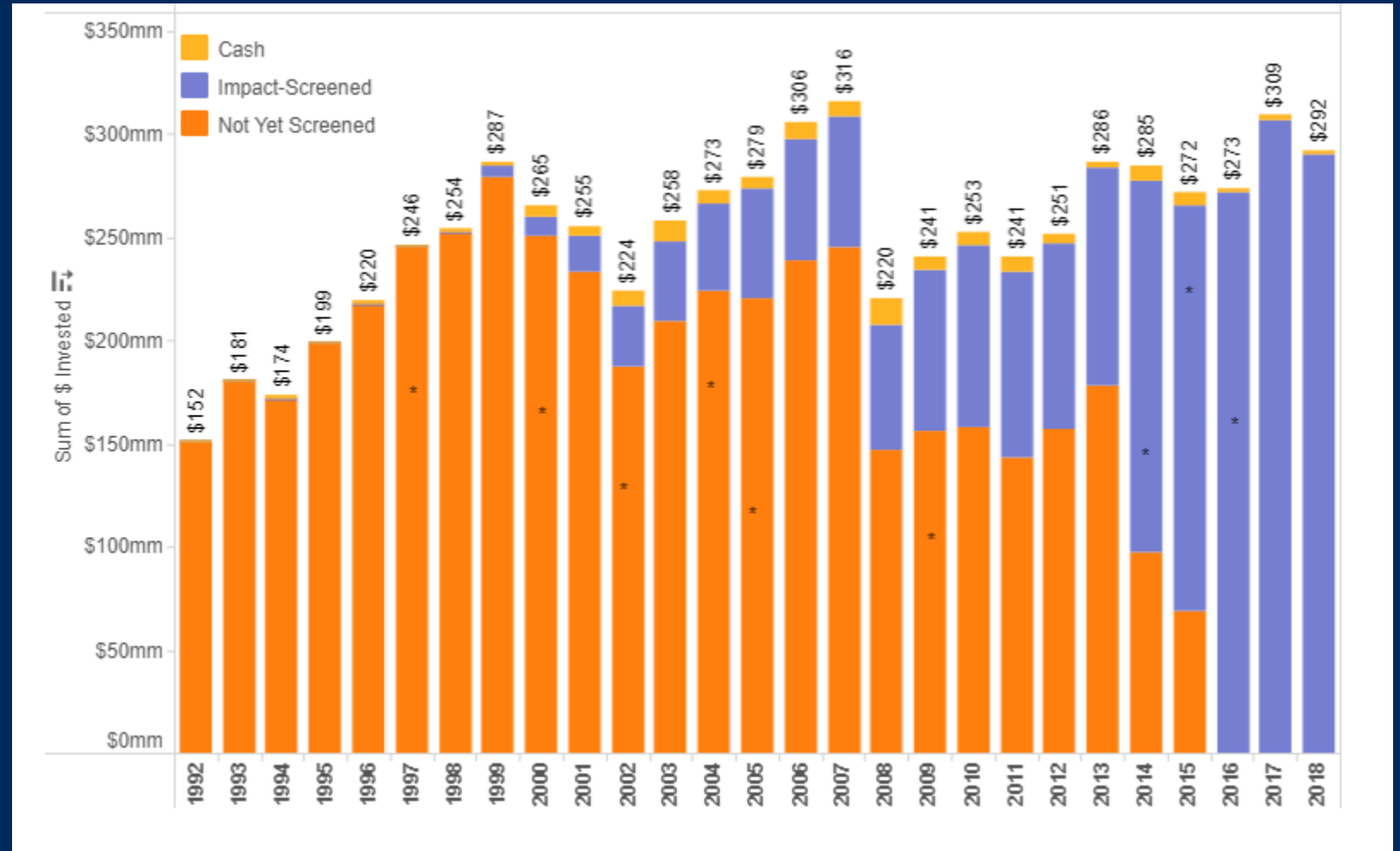
Heron Foundation

Conscious Portfolio Construction: 'impact everywhere'

Tips:

- ✓ Know what you own
- ✓ Don't try and shoehorn into one impact metric
- ✓ Don't rely too heavily on data
- ✓ Do marry quantitative and qualitative
- ✓ Do evaluate managers on the alignment with your values

89% in listed bonds and equities



Whole portfolio impact: Responsible Multi-Asset Fund

100%
Act to avoid harm

- x Fossil fuels
- x Tobacco
- x Alcohol
- x Armaments
- x High interest rate lending
- x Gambling
- x Pornography
- ✓ Paris aligned climate policy
- ✓ ESG Integrated



77%
Benefit people and planet

- ✓ Sustainable leaders

27%
Contribute to solutions

- ✓ Aligned to UN SDGs
- ✓ Intentional
- ✓ Material

Impact of the equity portfolio


Our Equities

Global Equities


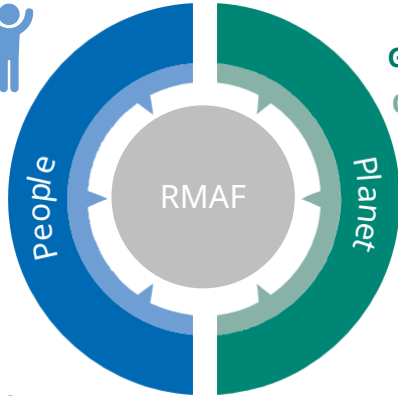
Global Equities
Our Equities

3x Social benefits increased

85% Carbon footprint reduced by

PER £1M INVESTED

- Carbon emissions**
 **83** metric tonnes less than global equities
- Equivalent to:**
 - The annual energy use of **10 homes**
 - Taking **18 cars** off the road for a year
 - Planting and growing **1,366 tree seedlings**



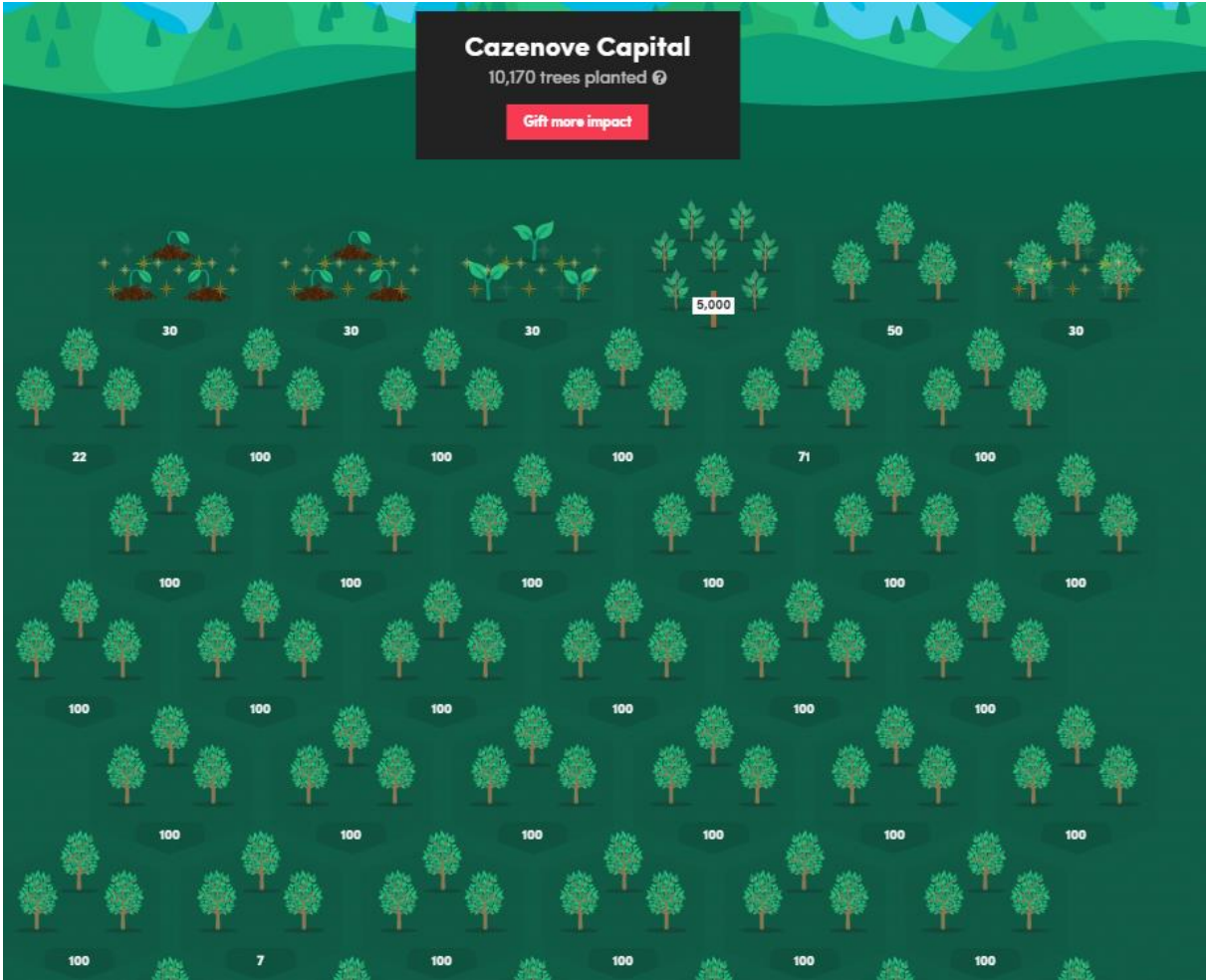
ALIGNMENT TO UN SUSTAINABLE DEVELOPMENT GOALS




Source: Cazenove Capital, Responsible Multi-Asset Fund Impact Report as at 31st December 2020.

Innovative Carbon Offset partnership with Ecologi

Tree dividends



Source: Ecologi, as at 14th April 2021

Supporting high quality reforestation and protection projects



Protecting and restoring the Pacific Coast of Colombia

Protecting and restoring 83,452 hectares of Colombia forests

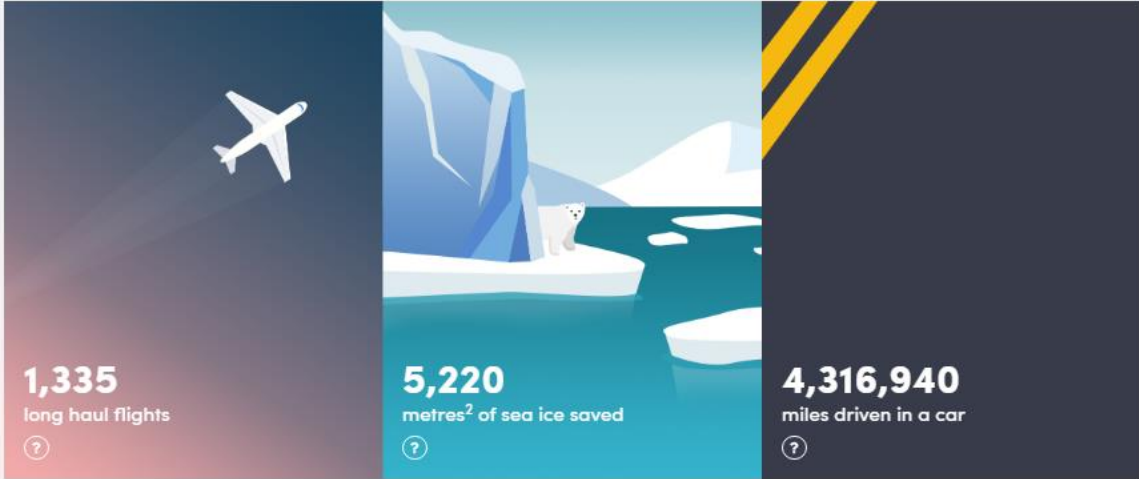
285T CO2 REMOVED



Forest plantation on degraded grassland in Uruguay

Over 20,000 hectares of land used for cattle grazing to be used for forestry.

570T CO2 REMOVED

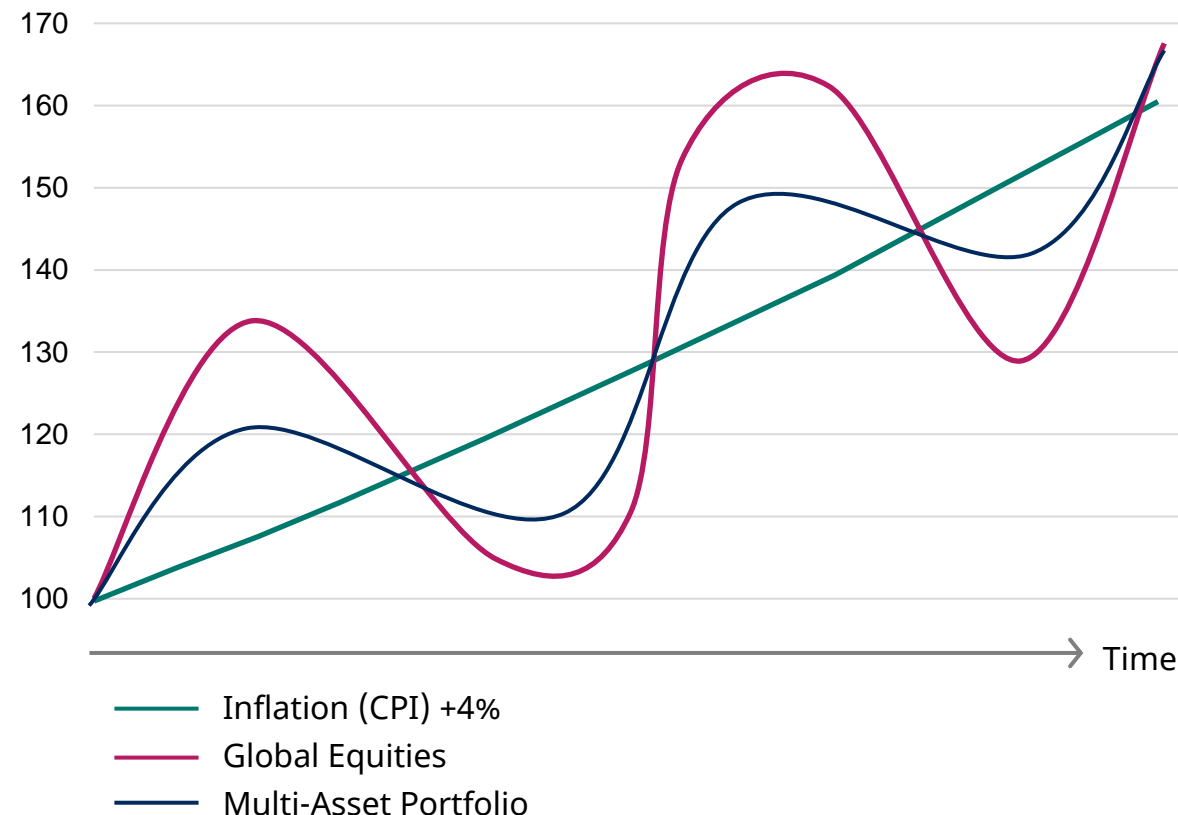


In practice: Responsible Multi-Asset Fund

Designed specifically for charities

- **Charity Authorised Investment Fund** – regulated by the Charity Commission and FCA
- **Strong corporate governance** – the Fund is monitored by an independent Advisory Committee
- A target return objective of **inflation (CPI) plus 4%** over rolling ten-year periods¹
- Best practice responsible investment policy
- Income units pay a sustainable distribution to fund charitable expenditure (targeting 4% p.a. total return distribution smoothed over the previous three years)
- Liquidity: 12.00 daily dealing
- Active asset allocation over a market cycle around central strategy
- **Fastest growing charity fund 2020 and 2021**: fund size £476.9m on behalf of 160 charities

A smoother path of returns over time

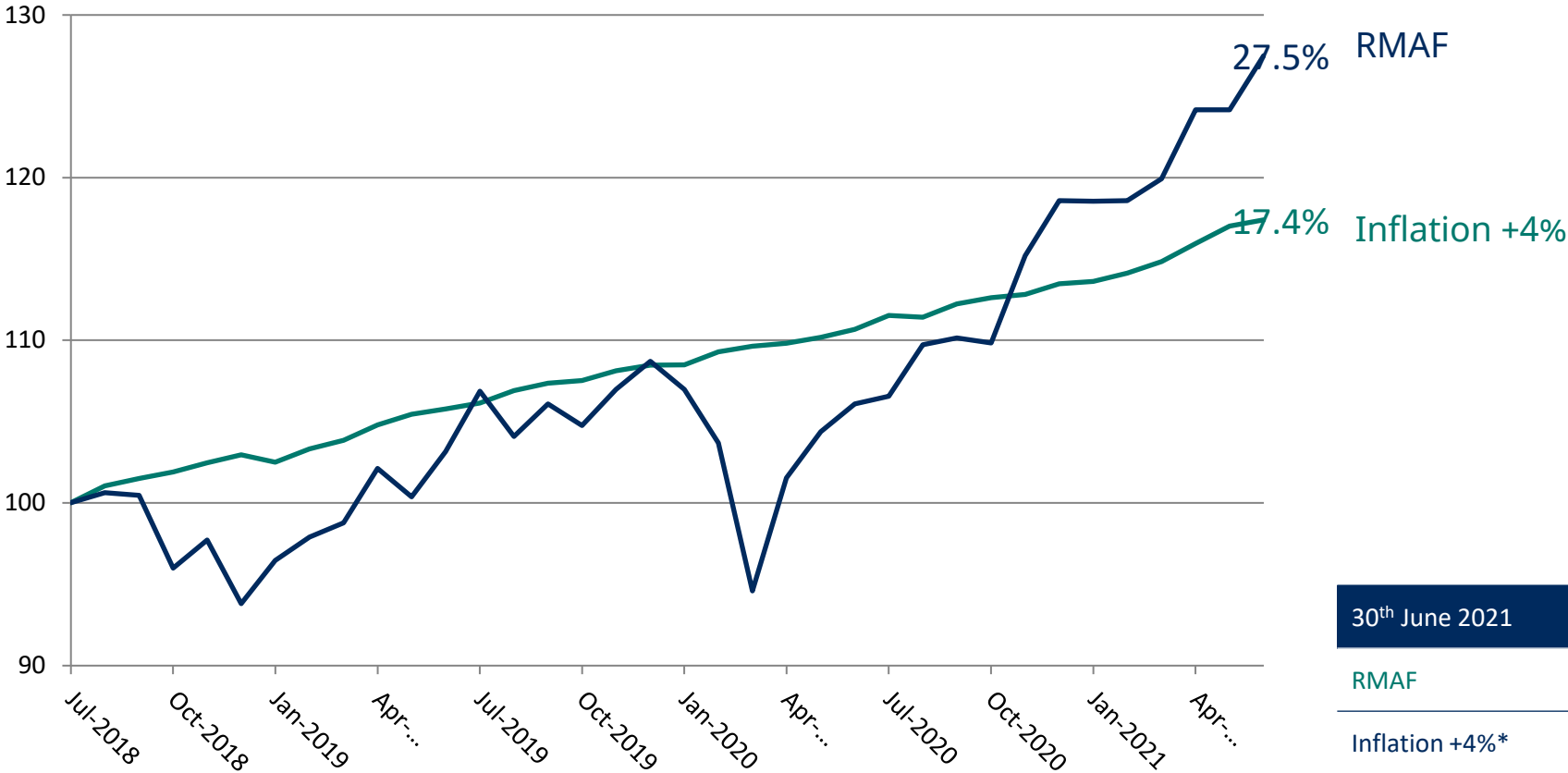


Source: Cazenove Charities Investment Survey 2017 (236 participants) and 2015 (286 participants).

¹The target return is not guaranteed and your capital is at risk. 30th June 2021. Estimated risk and return data is based on our own analysis. Risk, return or yield characteristics of the above portfolios or constituent asset classes are not guaranteed to be achieved in the future. We define risk as standard deviation of annual returns. Our forecasts assume an average rate of inflation (CPI) of 2% per annum.

Responsible Multi-Asset Fund (RMAF)

Strong financial returns and positive impact



Past performance is not a guide to future performance.
 Source: Datastream/Lipper, bid to bid, in GBP, net income reinvested at 30th June 2021. S Share Class; cumulative returns. Inception: 1 August 2018. *inflation data to May 2021

Cutting through the jargon



- ✓ **Sustainable investments** seek positive impact for people and planet, alongside generating attractive financial performance
- ✓ **ESG integration isn't enough** – we need to measure and manage **impact**
- ✓ Intention + Action = Impact
- ✓ Investment approaches range from avoiding harm to contributing to solutions
- ✓ Avoid greenwashing by checking action – what are the investments and how is influence being used?
- ✓ There is an opportunity for collective action – investors coming together to drive progress



Questions

Disclaimers, risk warnings and regulatory status

Disclaimers

We undertake to comply with our obligations under the Financial Services and Markets Act 2000 and the disclaimers set out in this section do not exclude or restrict liability for any duty to clients under this Act or any other applicable regulatory authority.

Nothing in this document should be deemed to constitute the provision of financial, investment or other professional advice in any way. The material in this document is for information purposes only and the services, securities, investments and funds described may not be available to or suitable for you. Not all strategies are appropriate at all times.

We have taken all reasonable care to ensure that the information contained within this document is accurate, up to date, and complies with all prevailing UK legislation. However, no liability can be accepted for any errors or omissions, or for any loss resulting from its use. Any data and material provided ahead of an investment decision are for information purposes only. Unit and share prices are for information purposes only, they are not intended for trading purposes. We shall not be liable for any errors or delays in these prices or in the provision of this information, or for any actions taken in reliance thereon.

We reserve the right to amend, alter, or withdraw any of the information contained in this document at any time and without notice. No liability is accepted for such changes.

This document may include forward-looking statements that are based upon our current opinions, expectations and projections. We undertake no obligation to update or revise any forward-looking statements. Actual results could differ materially from those anticipated in the forward-looking statements.

Risk warnings

You should consider the following risks:

Investment risk Past performance is not a guide to future performance. The value of an investment and the income from it may go down as well as up and investors may not get back the amount originally invested.

Taxation Statements concerning taxation are based on our understanding of the taxation law in force at the time of publication. The levels and bases of taxation may change. You should obtain professional advice on taxation where appropriate before proceeding with any investment.

Exchange rates Investments in overseas securities are exposed to movements in exchange rates. These may cause the sterling value of units to go up or down.

Debt securities Investments in higher yielding bonds issued by borrowers with lower credit ratings may result in a greater risk of default and have a negative impact on income and capital value. Income payments may constitute a return of capital in whole or in part. Income may be achieved by foregoing future capital growth.

Emerging markets You should be aware of the additional risks associated with investment in emerging and developing markets. These include: higher volatility of markets; systems and standards affecting trading, settlement, registration and custody of securities all possibly lower than in developed markets; lack of liquidity in markets and exchanges leading to lower marketability of securities and greater price fluctuation; significant currency volatility, possibly resulting in adoption of exchange controls; lower shareholder protection or information to investors provided from the legal infrastructure and accounting, auditing and reporting standards.

Disclaimers, risk warnings and regulatory status

Risk warnings (continued)

Unregulated collective investment schemes Unregulated collective investment schemes and other non-mainstream pooled investments (NMPs) are unlikely to offer a level of investor protection equivalent to that available for UK regulated investments. Such schemes may deal infrequently and may limit redemption.

Structured products Structured products are usually issued by financial institutions and in the event of these institutions going into liquidation or failing to comply with the terms of the securities you may not receive the anticipated returns and you may lose all or part of the money you originally invested. If you sell your investment before its maturity date the investment may achieve a price less than the original investment. The performance of these investments may depend on indices and defined calculations which may differ from direct investments.

Gearing Some of the investments we may make on your behalf could be in investment companies which use gearing as a strategy or invest in other investment companies which use gearing, such as investment trusts. The strategy which the issuer of such securities uses or proposes to use may result in movements in the price of the securities being more volatile than the movements in the price of underlying investments. Such investments may be subject to sudden and large falls in value and you may get back nothing at all if there is a sufficiently large fall.

Regulated Mortgages Schroder & Co. Limited is authorised by the Prudential Regulation Authority to administer, advise on, arrange (bring about) and enter into a regulated mortgage contract. Your home may be repossessed if you do not keep up repayments on your mortgage.

All data contained within this document is sourced from Cazenove Capital unless otherwise stated. Where FTSE International Limited (“FTSE”) data is used, “FTSE” is a trade mark of the London Stock Exchange Group of companies and is used by FTSE International Limited under licence. All rights in the FTSE indices vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices or underlying data. No further distribution of FTSE data is permitted without FTSE’s express written consent.

Company particulars and regulatory status

This document is issued by Cazenove Capital which is part of the Schroder Group and is a trading name of Schroder & Co. Limited, who together with connected companies provide the services described.

Schroder & Co. Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Registered office is at 1 London Wall Place, London, EC2Y 5AU. Registered Number 2280926 England.

Services supplied by Schroder & Co. Limited and connected companies may be subject to value added tax (VAT). Schroder & Co. Limited is registered for VAT in the United Kingdom (GB 243868730).

For your security, communications may be recorded or monitored.