

Schroder Investment Management Limited

Pan European Socially Responsible

Investment Policy

Schroders approach to monitoring and taking action on corporate social responsibility

This policy document outlines the approach taken by Schroders to socially responsible investment in the Pan European Market.

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Our Approach to Socially Responsible Investment

Schroders' Philosophy

Schroders provides specialist investment management services to a wide range of clients and as part of that function we purchase, hold and sell assets in order to earn returns for the clients' capital that we manage. Schroders' aggregate holdings in a company will vary over time as a result of both the flow of client assets into or out of our management and of our own portfolio allocation and stock decisions.

Schroders' investment process takes into account the fact that a broad range of both financial and non-financial factors can affect the sustainability of a business and, consequently, the financial returns that can be derived from an investment in any given company's assets. Our analysis endeavours to identify and focus on issues that either are, or could become, material in the context of both financial performance and market valuation. On a routine basis Schroders' investment process therefore undertakes research into the environmental, social and ethical views held by company management and the policies and performance management systems that reflect these views. Where this research identifies potential financial or reputational risks, their relevance is assessed and they are given appropriate consideration when constructing portfolios.

SRI Approach

Schroders believes that companies have the ability to enhance their long-term profitability through an understanding of the environmental and social aspects of their activities. An understanding of this information allows companies to be aware, from both an internal and external perspective, how these aspects can add or detract value from the business. A thorough awareness of the environmental and social factors affecting their business also enables companies to mitigate potential risks and liabilities from these factors in an increasingly dynamic environment where legitimacy and credibility in the market place, as perceived by stakeholders, are important indicators of company performance.

Stakeholders¹ have a broad variety of vested interests, and increasingly, companies have to demonstrate accountability and a commitment to responsible behaviour. Broadly speaking this embraces requirements to:

- Shareholders, to maximise the returns on their investment;

¹ Stakeholders are defined as anyone who can be influenced by, or has influence on, a company's operations

- regulators, competitors and Government, to operate fairly and legally within the market place;
- consumers, to provide goods and services that meet specified quality standards;
- suppliers, to respect and uphold supply chain agreements;
- employees, to provide a working environment which is conducive to optimal performance;
- local communities, to operate in accordance with their expectations; and
- charities and pressure groups, to listen and be seen to be credible.

Policies outlining corporate social responsibility and corporate governance procedures establish a framework to facilitate this measurement across all corporate functions, from human resources to operations and supply chain management, finance, marketing and sales. Performance indicators (both financial and non-financial) can be used to provide information on these activities and their economic impact, enabling a fuller understanding of these effects and providing consistent information over a period of time. Companies that can demonstrate a commitment to quality management in these areas can contribute to their own business success by enhancing their financial returns on investment in the long run and their long-term shareholder value.

Corporate Disclosure

Schroders believes that the onus is on companies to demonstrate and disclose how their operations take into account social and environmental issues of a relevant nature to the business. Levels of disclosure by companies vary, especially between sectors, where social and environmental issues have different levels of importance, and currently there is no national or international Corporate Social Responsibility (CSR) standard recognised by all companies and investors.

Schroders would expect to see disclosure on social and environmental policies and management systems and the reporting of significant risks and opportunities identified through these policies. In terms of disclosure we look for a company to state in its Annual Report and Accounts:

- that the board takes regular account of social and environmental factors which impinge upon business and upon whom this responsibility falls, or;
- it has clear reasons for the absence of environmental and social policies and procedures;
- it identifies which social and environmental matters, particularly risks, are significant to short and longer term value;
- whether the board has adequate information to assess this information; and
- if there are effective systems in place to manage these risks.

Schroders acknowledges that many Pan European companies have either multinational operations or significant trade links with overseas partners and that it is not always possible for a company to transfer and apply its domestic benchmarks to its overseas activities. It is reasonable, however, to expect that with regard to environmental, social and ethical policies they should, at a minimum, conform to local best practice. Ideally, companies should apply the higher of company internal standards or those of the host country.

Shareholder Activism

Our policy towards shareholder activism includes a commitment to establish a regular dialogue with investee companies (engagement) and voting where necessary. We monitor and evaluate the impact of our activism and regularly report back to our clients. Engagement and voting activities are a part of this policy.

Engagement

Schroders views engagement as a positive activity. Engagement is an integral part of our role in managing, protecting and enhancing the value of our clients' investments and is undertaken on a reasoned and pragmatic basis, recognising that companies do not all conform to a single structure and their approach to issues may not always be standard. In all intervention and engagement, our strategy is to seek additional understanding or, where necessary, seek change that will protect and/or enhance the value of our investments. Engagement benefits communication and understanding between companies and investors. We combine the perspectives of our research analysts, portfolio managers, corporate governance specialists and corporate social responsibility analysts to form a rounded view of each company and the issues it faces.

Schroders' SRI analysts engage in dialogue with companies to:

- determine what they are doing to manage their social, ethical and environmental risks (SEE);
- encourage them to improve their performance on SEE issues, where these issues may represent a risk to shareholder value;
- help them develop policies and systems to manage these risks; and
- where relevant, to set targets for improvement.

It follows that we concentrate on each company's ability to create sustainable value and may question or challenge companies about governance issues that we perceive may affect the future value of those companies. If you wish to obtain details of the company engagement process, please refer to the company SRI engagement document which is available on request.

Voting

As an active fund manager, it is essential that the companies in which Schroders invests are monitored for performance. Accordingly Schroders will, where necessary, engage or take voting action where there are questions about performance and where it is considered that engagement would benefit clients' interests. We normally hope to support company management. However, we will withhold support or oppose management if we believe that it is in the best interests of our clients to do so.

Copies of the UK Corporate Governance Policy and the International Corporate Governance Policy are available on request. These policies provide non-exhaustive guidelines of the types of issues that we would not generally support. Some of which are outlined below:

General

- Any resolution materially reducing shareholders' rights or damaging to shareholders interests.
- The creation or continuation of poison pill arrangements, take-over defences or other equivalent arrangements.
- A lack of secure methods of ownership or unreasonable restrictions on the transfer of shares.

Annual report and Accounts

- Annual report and accounts, where we have concerns about them or their preparation.

Borrowing Powers

- Amendments to a company's articles/statutes that would remove limits on debt or increase the limits unacceptably.

Share Issuance

- Proposals to allow unlimited capital authorisations or blank cheque transfer.
- The disapplication of pre-emption rights in breach of recognised market guidelines or practice or, in the absence of guidelines or recognised practice, an overall limit of 10%.

Distributions

- Distributions that would, in our opinion, inappropriately affect or damage the financial health or strength of the company.

Directors

- The discharge or indemnification of the board or management where we are aware of outstanding issues.
- The appointment of directors who are not subject to regular re-election (at least every three years) by shareholders, or who regularly use (unelected) alternate directors.
- The appointment or re-appointment of any director where their appointment would contribute to an inadequate level of independence on the board.

Remuneration

- Pay arrangement that lack appropriate performance linkage or performance periods and which may not therefore be aligned with shareholder interests.
- Incentive plan proposals that are not structured in line with market best practice in relation to performance linkage, pricing or dilution.
- Fee (remuneration) arrangements for non-executive directors that are likely to compromise their independence (e.g. option awards or retirement benefits).

Auditors

- The appointment or re-appointment of auditors where there are significant concerns about their ability and suitability and/or independence.

Non-Voting Issues

- Should an issue of significant shareholder concern arise on a matter that is not subject to a shareholder vote, where appropriate, consideration may be given to reflecting that concern through surrogate voting action. Such voting action might, for example, be applied to a proposal to approve the financial statements or another relevant proposal such as the re-election of appropriate directors.

Increasingly shareholder resolutions on a social, environmental or ethical issue are being tabled at companies' AGMs. We will consider each resolution on a case by case basis, taking account of the company's performance, what best practice is, whether the company has faced similar resolutions before and ultimately if the resolution is in the interests of shareholders before deciding how to vote.

Our aim in using voting rights is to promote the adoption of suitable standards and to safeguard and enhance the long-term interests of our investments and clients.

Evaluating Schroders' Performance

We report to our clients on a quarterly basis. We report details of the companies we have met, whom we met within the company, the issues we have raised and what results, if any, were achieved. We also publish these reports on our client specific website and produce an annual review of SRI activities.

Conflicts of Interest

Schroders acknowledges that conflicts of interest may arise within the context of our work. Where these arise the matter is referred to the Director of Risk and Compliance by the Head of SRI, who then makes our final engagement, activism or voting decisions, ensuring that they best serve the interests of our clients as a whole.