



Schroders Impact Framework

Marina Severinovsky

Head of Sustainability, North America

March 2023

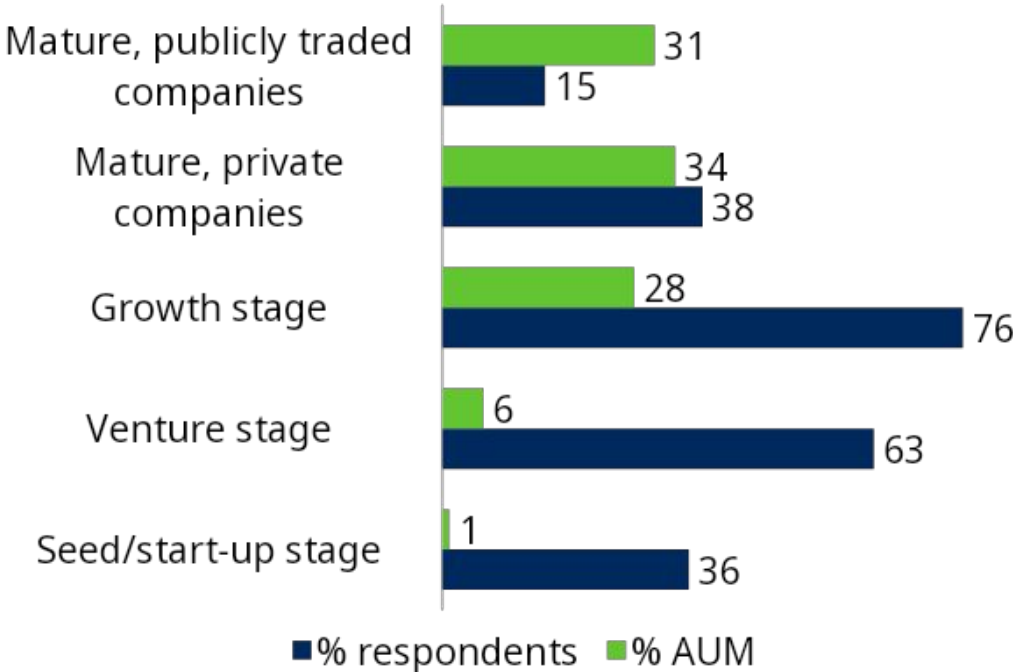
Marketing material for professional
investors or advisers only.

The Impact Investment market is growing...

Increasing allocation to listed markets

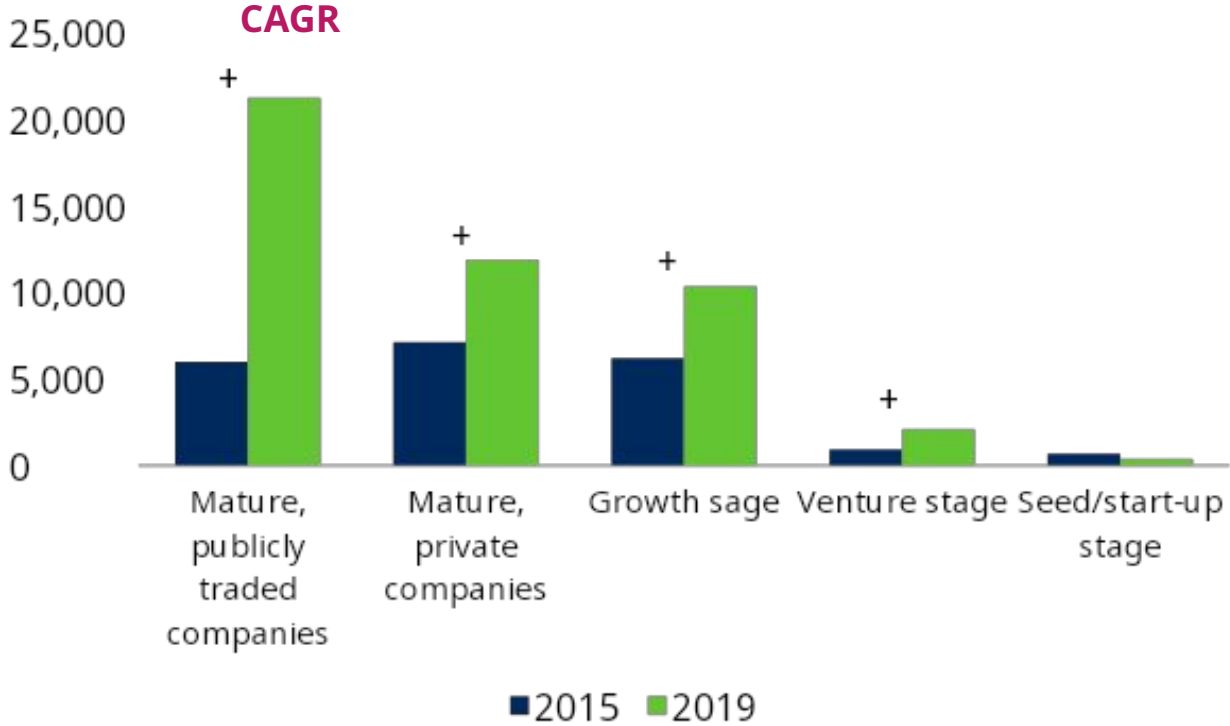
Asset allocations by stage of business, 2020

n= 252, AUM = \$105 bn



Asset allocations 2015-2019 by stage of business

n= 53, AUM in USD millions

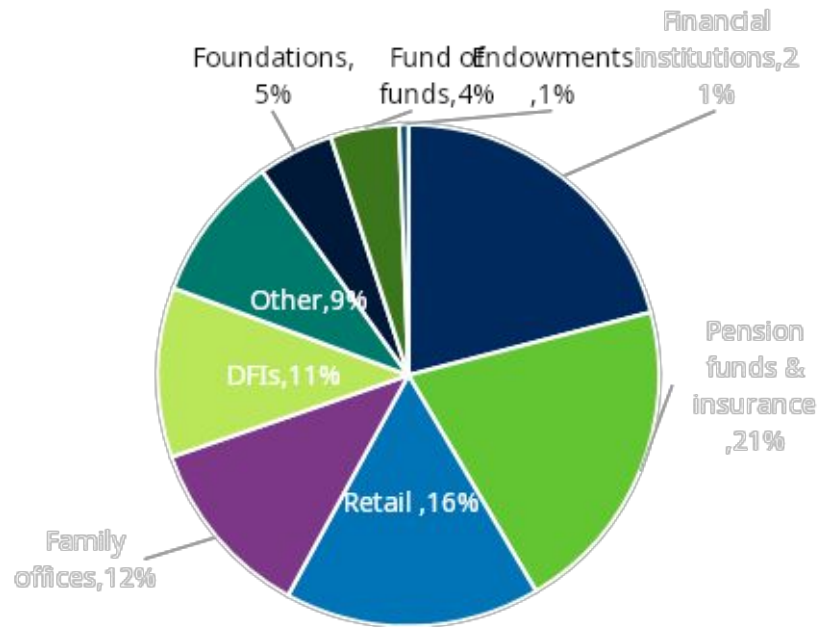


Source: GIIN Impact Investor Survey 2020

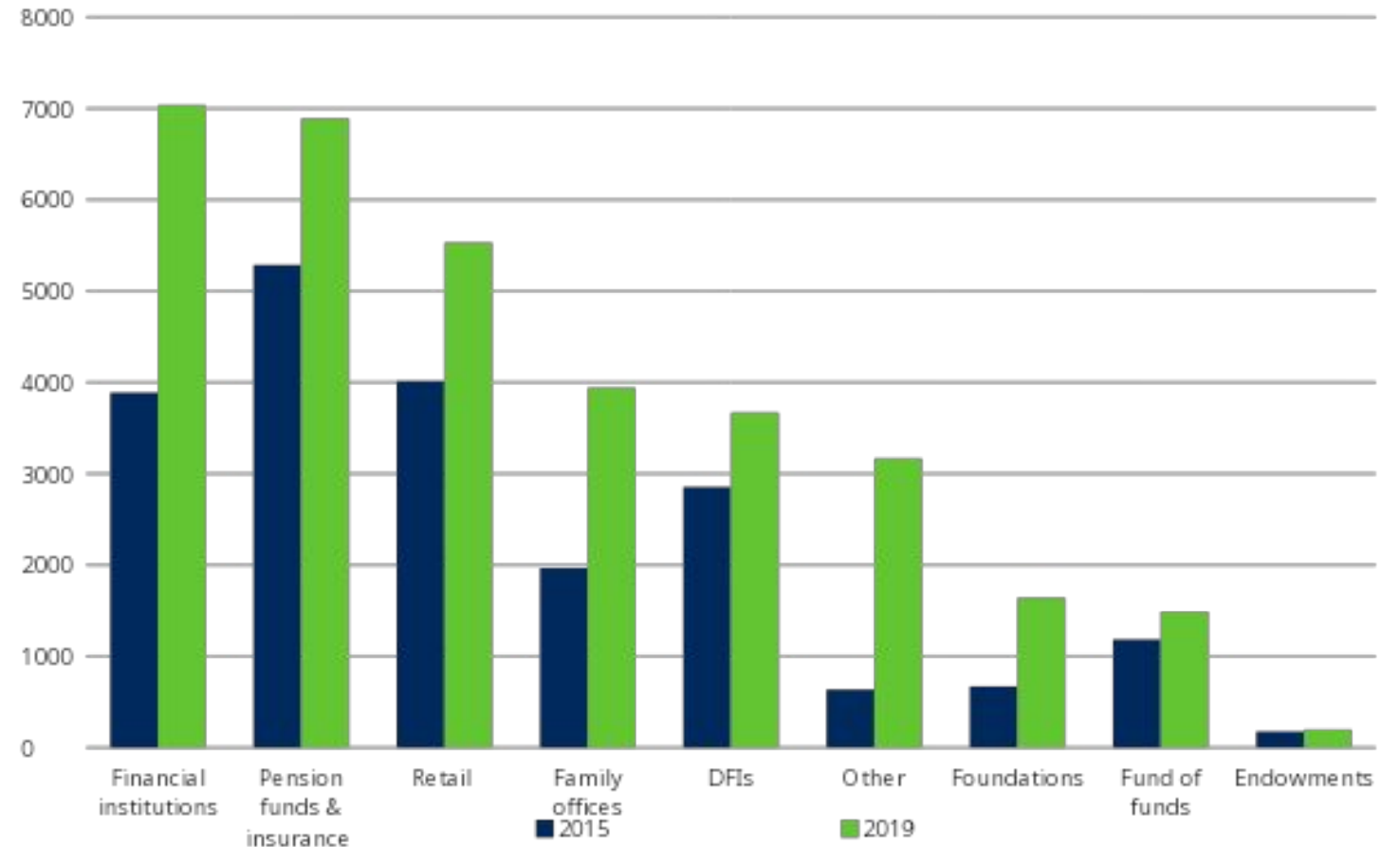
Who is making Impact Investments?

Fastest growth in foundations and family offices, but pockets of interest broadly

Capital invested by institution type



Growth in capital invested, CAGR

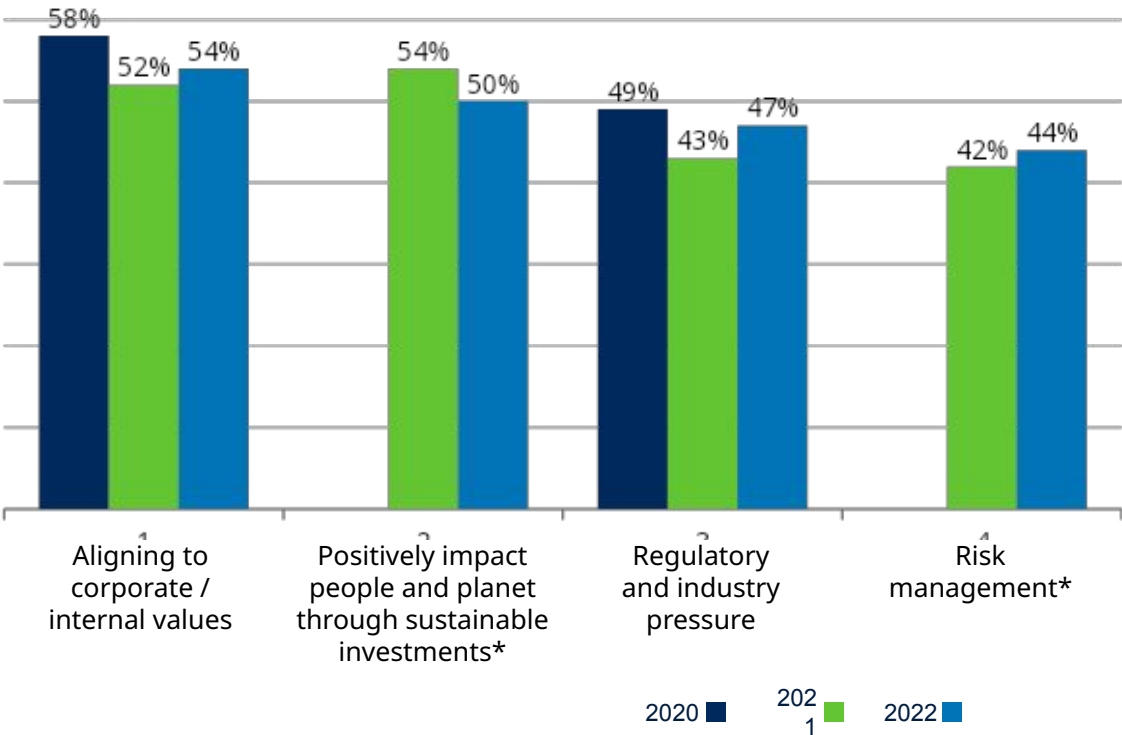


Source: GIIN

Impact is a key motivation for Institutional and end investors

Institutional investors

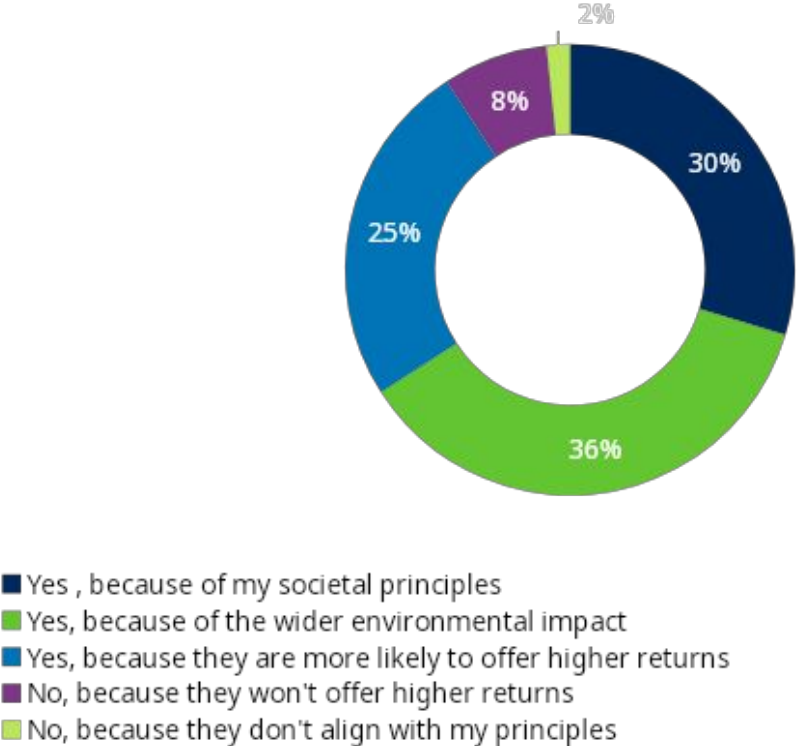
Q. What is driving your sustainable investment focus?



Source: Schroders Institutional Investor Study 2022.
% Multiple answers allowed. *These options were not included in previous years.

End investors

Q. Are you attracted to sustainable funds?



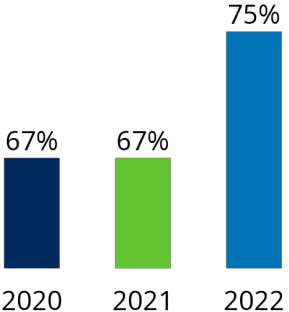
Source: Schroders Global Investor Study 2022. Figures in this document may not add up to 100% due to rounding and the ability to select multiple answers to some questions.

The rise of impact investing as an approach to sustainability

Q. What is your preferred approach to implementing sustainable investments?

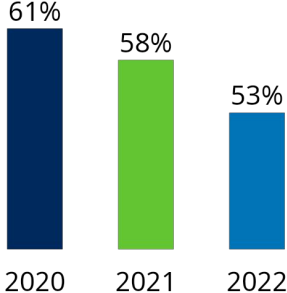
ESG integration into the investment process

1



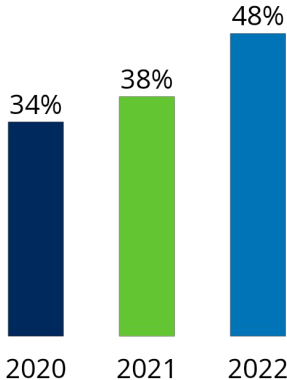
Positive screening

2



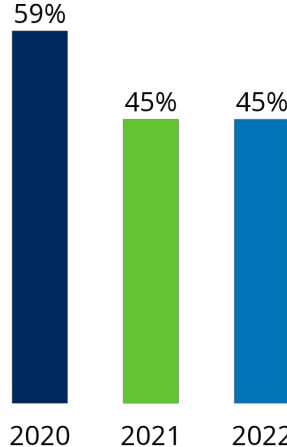
Impact investing

3



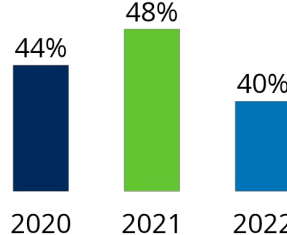
Active company engagement

4



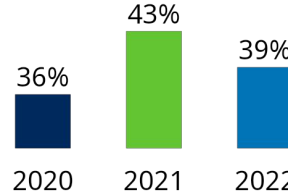
Thematic investing

5



Negative screening

6

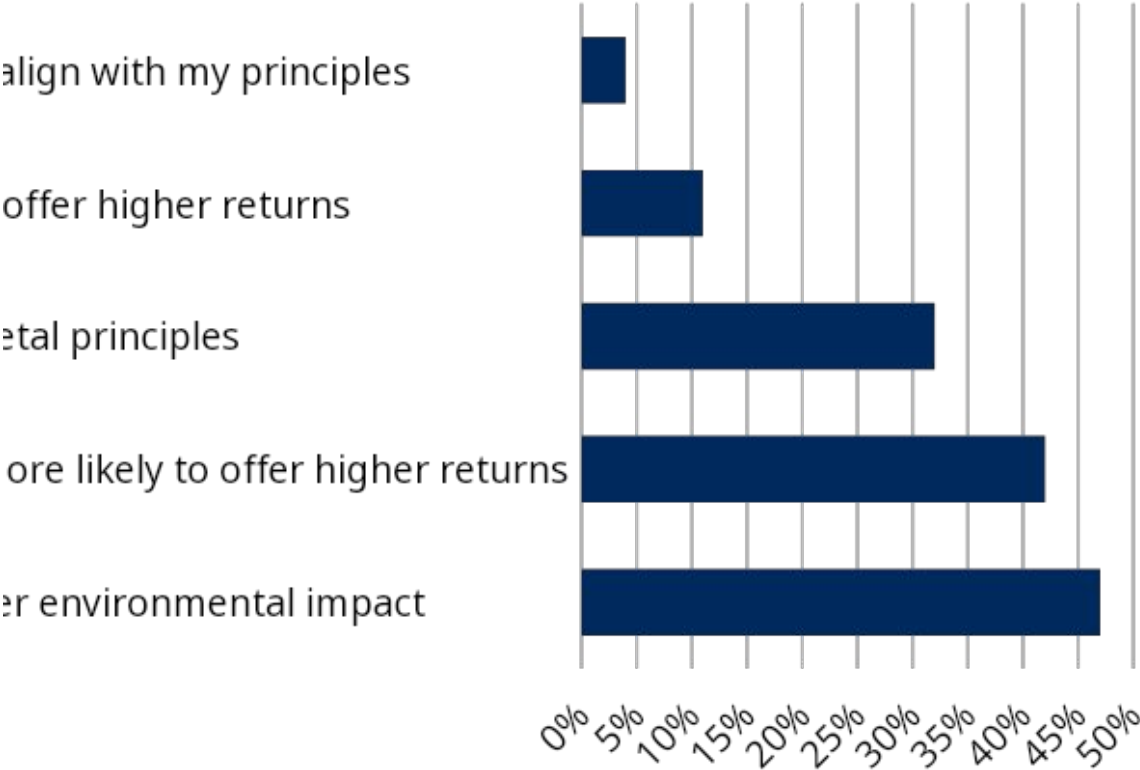


Source: Schroders Institutional Investor Study 2022. Respondents ranked approaches from 1-6. This graph shows %Rank 1+2+3.

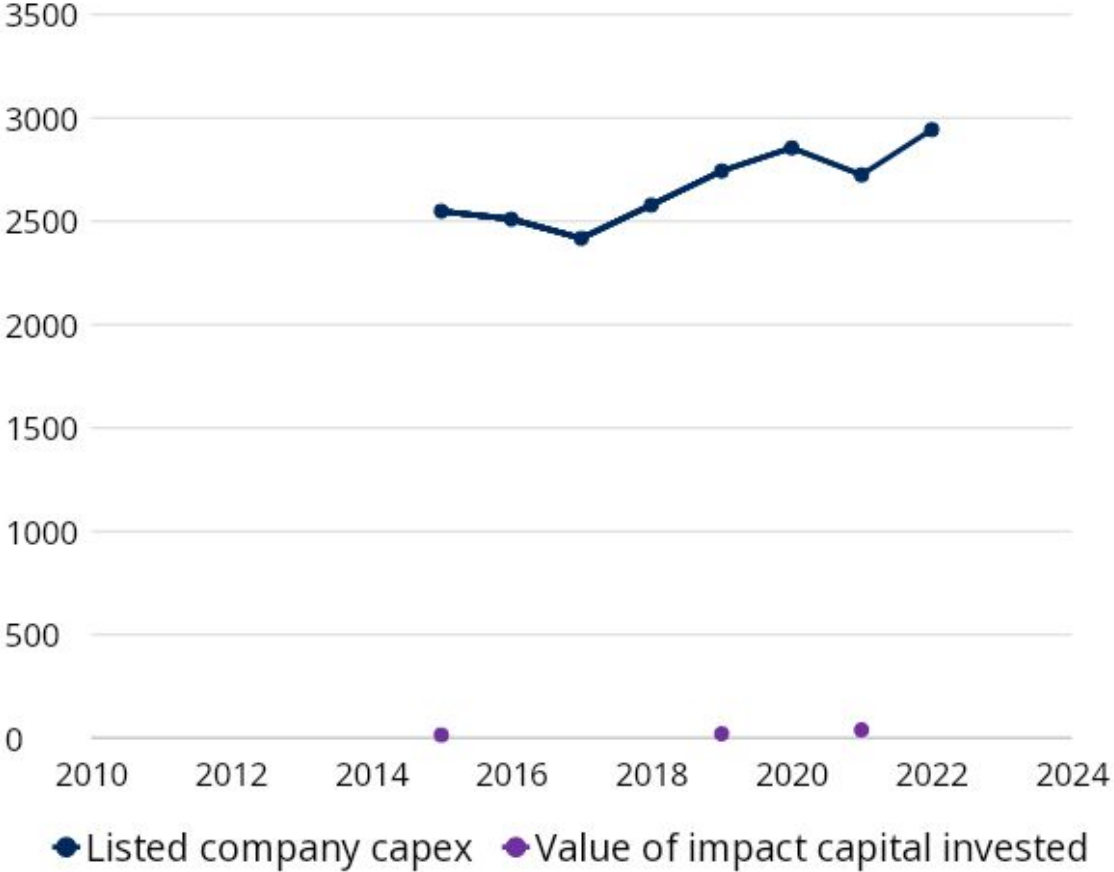
Impact Investing in public markets

Strong appetite to invest with impact; much more potential in listed assets

Are sustainable investments attractive?



Investment by listed companies & impact funds, \$bn



Source: Schroders Global Investor Survey, GIIN, Refinitiv, Schroder calculations

What is Impact Investing?

*“Investing into companies and assets with the **intent to contribute to measurable positive social or environmental impact alongside financial returns**”*

Impact investments should have:



Intentionality

Investor must have an intention to have a positive social or environmental impact through investments



Additionality/contribution

Be able to demonstrate a contribution to impact (theory of change)

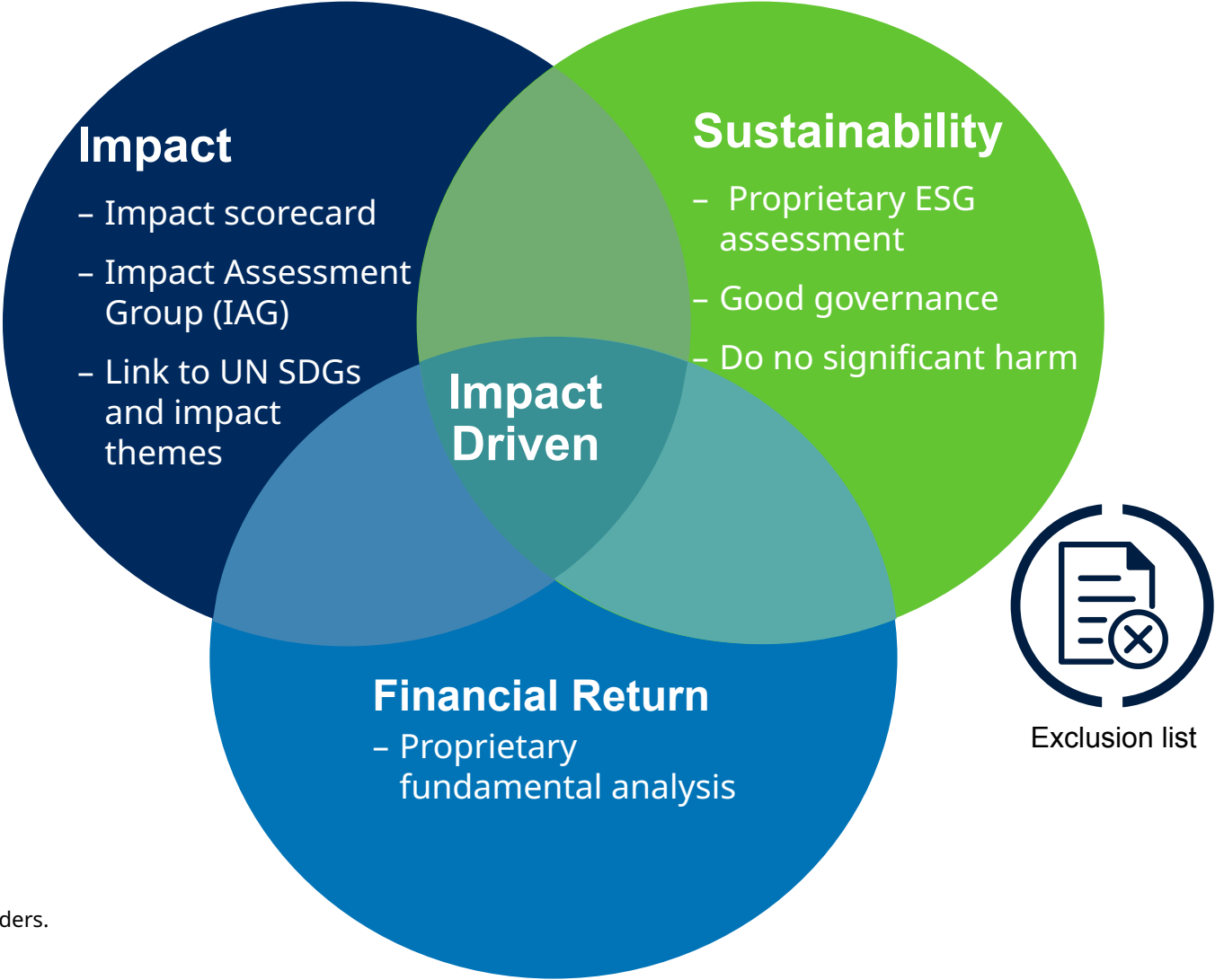


Measurability

Commitment to measure and report the social and environmental performance and progress of underlying investments

Investment process

Triple lens assessment



All holdings must pass the triple lens assessment to be considered for inclusion in an Impact Driven fund

Source: Schroders.

Schroders Global Sustainable & Impact Product Framework

Sustainable Thematic vs. Impact Driven



Sustainable Thematic

Investment Proposition

- Financial returns through investments that contribute to societal or environmental goals¹

Portfolio Characteristics

- Contribution alignment demonstrated at **portfolio level**
- Portfolios construction and selection based on alignment to relevant **theme(s)/SDGs**



Impact Driven

Investment Proposition

- Investments with intent to generate a positive and measurable societal or environmental impact, alongside financial returns²

Portfolio Characteristics

- Impact alignment demonstrated at **security/transaction level by scoring higher than the minimum impact score/threshold**
- Portfolio construction and selection required to meet the **5 dimensions of the IMP (Impact Management Project): What, How much, Who, Contribution and Impact Risks**
- Investment process follows the **9 Operating Principles for Impact Management (OPIM)**

¹Impact Investing Institution definition. ²Global Impact Investing Network definition.

Impact Investing vs. the impact of investments

Terms often used interchangeably, leading to confusion

Valuing impacts of investments

- Involves understanding the costs and benefits of issuers' activities on the environment and society

Thematic/SDG Alignment

- Typically revenue-alignment to SDG or sustainable themes

Generating and measuring "Impact"

- The concepts of intentionality, additionality and measurability are key



Impact Framework and Scorecard

Impact Area	Objective	Target	Weight	Score
How much	Carbon footprint	Reduce CO2 emissions	10%	85%
	Water usage	Reduce water consumption	5%	90%
	Waste management	Reduce waste to landfill	5%	80%
	Employee satisfaction	Improve employee engagement	5%	95%
Who (Direct)	Customer satisfaction	Improve customer loyalty	15%	88%
	Supplier satisfaction	Improve supplier relationships	10%	82%
	Community engagement	Improve community relations	10%	75%
	Government relations	Improve government relations	10%	80%
Who (Indirect)	Supplier satisfaction	Improve supplier relationships	10%	85%
	Customer satisfaction	Improve customer loyalty	15%	80%
	Employee satisfaction	Improve employee engagement	5%	90%
	Community engagement	Improve community relations	10%	78%
Contribution	Carbon footprint	Reduce CO2 emissions	10%	85%
	Water usage	Reduce water consumption	5%	90%
	Waste management	Reduce waste to landfill	5%	80%
	Employee satisfaction	Improve employee engagement	5%	95%
Risk	Climate risk	Reduce climate risk exposure	10%	80%
	Water risk	Reduce water risk exposure	5%	85%
	Waste risk	Reduce waste risk exposure	5%	80%
	Employee risk	Reduce employee risk exposure	5%	90%

Schroders' ambition: Scaling impact with integrity

Schroders framework brings best-in-class impact practice to listed and private markets



Robust impact measurement and reporting

A proprietary impact scorecard established with BlueOrchard to assess and monitor the impact of all investments.



Independent governance and impact expertise

Leveraging Schroders' and BlueOrchard's strong sustainability and impact expertise to ensure a high bar is met and applied consistently.



Consistent approach across asset classes

Same lens on impact applied across asset classes – bringing rigour of pureplay impact investing into private and listed markets. Impact management approach in line with industry best practice.

Impact Framework developed with leading impact investment manager BlueOrchard

Schroders' Impact Investing framework

Mitigating the risk of “impact washing”



Impact management

- **Signatory to Operating Principles of Impact Management** as of September 2022
- Leverage BlueOrchard's impact investing expertise, tools, and resources



Operating Principles for Impact Management



Impact measurement

- **Consistent framework for assessing and quantifying impact** through proprietary scorecard (*applicable to listed and private markets and across sectors*)
- Impact measurement based on the five dimensions of the Impact Management Project (*What; How much; Who; Contribution; Risk*)

**IMPACT
MANAGEMENT
PROJECT**



Impact governance

- **Impact Incubator** meets with investment team to refine proposition
- **Impact Assessment Group** provide an **independent assessment of impact** for every transaction in both listed and private markets
- **Impact Executive Committee ensures consistency of the impact assessment** principles, process and tool(s) for impact strategies







Source: Impact Principles; Impact Management Project; Schroders; BlueOrchard, 2022.



Impact
management

A rigorous impact management process that is aligned to the Impact Principles

Schroders' impact strategies all have:

-  **Theory of change** with consistent SDG mapping
-  Consistent **impact assessment process**, including risk assessment
-  Use of **impact tool(s)** that track and measure a set of common impact metrics
-  Robust **governance** structure
-  Ongoing **monitoring** and refinement of impact management process
-  Regularly undergo **independent impact verification** of the overarching impact framework

Schroders alignment to Impact Principles



**Operating Principles for
Impact Management**

Source: Impact Principles, Schroders, Center for Theory of Change.



Impact
measurement

Schroders Impact Scorecard

A proprietary scorecard to assess and monitor the impact of all investments



Measurement

Use of a range of insights to focus on specific KPIs for each investment



Tracking

Regular tracking of KPIs in order to track both the trajectory and pace



Engagement

Using our influence to drive long-term impact engagement and facilitate change where necessary

Standardized impact scorecard used to measure, track and drive engagement



Impact measurement

How do you measure the degree of Impact?

Schroders proprietary Impact Scorecard



WHAT

What outcome the enterprise is contributing to? How important the outcome is to stakeholders?



WHO

Which stakeholders are experiencing the outcome?
How underserved are they?



HOW MUCH

How many stakeholders experienced the outcome?
What degree of change did they experience?
How long did they experience the outcome?



CONTRIBUTION

Did the investment result in outcomes that were likely better than what would have occurred otherwise?



RISK

What is the likelihood that impact may be different than expected?

Impact Scorecard
Schroders Impact-driven scorecard

BlueOrchard
Impact Investment Manager

Fund: [redacted] Company name: [redacted]
Country/Region: United States Company website/Additional links: [redacted]
Company description: [redacted]
Impact theme: [redacted]

I. WHAT - INVESTMENT'S INTENT

IMPACT INTENT	Comments	Impact Allocation
1. Environment		100%
2. Health & Wellness		0%
3. Inclusion		0%
4. Responsible production and consumption		0%
5. Sustainable Infrastructure		0%

II. HOW MUCH - IMPACT KPIs

	Impact A4	T-2	T-1	Current M	Target (2023 at entry)	Comment	Factor Score	Factor Weight	Max Score	Score
1. Environment							72.8%		40.00	29.12
2. Health & Wellness										
3. Inclusion										
4. Responsible consumption and production										
5. Sustainable Infrastructure										

III. WHO - TARGET STAKEHOLDER

	Impact Assessment	Data	Comment	Factor Score	Factor Weight	Max Score	Score
A. DIRECT STAKEHOLDERS				75%	100%	20.00	15.00
1. Stakeholder	People	NA	NA	NA	NA	NA	NA
2. Stakeholder	Education	NA	NA	NA	NA	NA	NA
3. Stakeholder	Medium-scale	25%	25%	4.0	3.00	3.00	3.00
4. Stakeholder	Medium to large scale	NA	NA	NA	NA	NA	NA
5. Stakeholder	Medium to large scale	NA	NA	NA	NA	NA	NA
B. INDIRECT STAKEHOLDERS				0%	0%	0.00	0.00
1. Stakeholder	Select option	NA	NA	NA	NA	NA	NA
2. Stakeholder	Select option	NA	NA	NA	NA	NA	NA
3. Stakeholder	Select option	NA	NA	NA	NA	NA	NA
4. Stakeholder	Select option	NA	NA	NA	NA	NA	NA
5. Stakeholder	Select option	NA	NA	NA	NA	NA	NA

IV. CONTRIBUTION

	Assessment	Comment	Factor Score	Factor Weight	Max Score	Score
A. ADDITIONALITY FOOTPRINT	Low additionality		50%	1%	0.5	0.3%
C. IMPACT CLASSIFICATION - ABC Framework	Contributor to Solutions		100%	1%	0.5	0.3%
D. INVESTMENT TYPE	Targeted or engineered capital		100%	1%	0.5	0.3%
E. DEGREE OF INFLUENCE	High degree of influence (by the holding and/or team)		100%	1%	0.5	0.3%
G. ENGAGEMENT & VOTING - Planned	Unlimited engagement plus voted		100%	1%	0.5	0.3%
I. ENGAGEMENT & VOTING - Completed	Unlimited engagement completed		100%	1%	0.5	0.3%
J. ENGAGEMENT - Issues (select multiple)	None		0%	0%	0.0	0.0%

V. IMPACT RISKS

	Assessment	Comment	Risk Adjustment Factor
1. Reputational risk	Medium		0.90
2. Business risk	Low		1.00
3. Stakeholder Participation risk	Low		1.00
4. Engagement risk	Low		1.00
5. Efficiency risk	Low		1.00
6. Execution risk	Medium		0.90
7. Alignment risk	Medium		0.90
8. Endurance risk	Medium		0.90
9. Unintended impact risk	Low		1.00
Overall Impact Risk Adjustment Factor			0.98



Impact
governance

Independent governance to ensure the highest bar is met and applied consistently

Impact governance framework

Impact ExCo

Impact ExCo ensures consistency in the impact assessment principles, process and tool(s) for impact strategies

Impact Assessment Group (IAG)

Objective *IAG responsible for the approval of every company into the investable universe. Unanimous approval required from independent members*

Members *Independent members include impact and sustainability experts from the Schroders Sustainability and Blue Orchard teams*

Frequency *At least monthly*

↓ **Approval**

↘ **Rejection**

Impact Universe

Once a company has been approved, it meets all S&I requirements and fund managers can chose to invest in it with no further approval needs





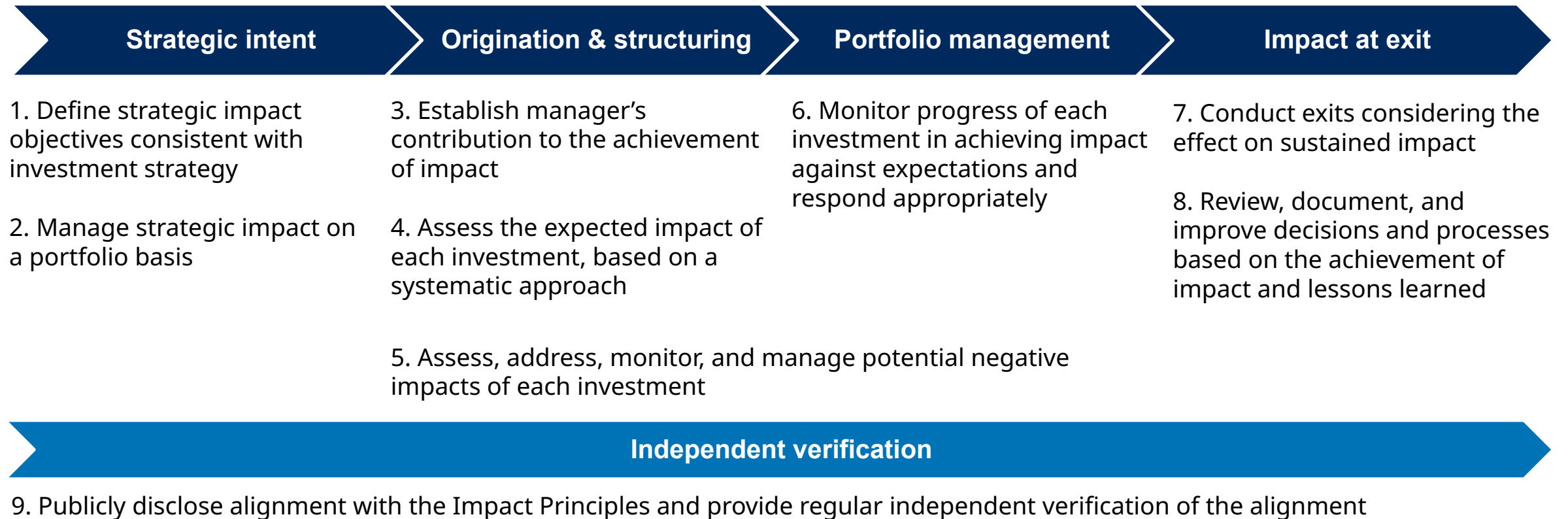
Appendix

Marketing material for professional
investors or advisers only.

Impact management

A rigorous impact management process that is aligned to the Impact Principles

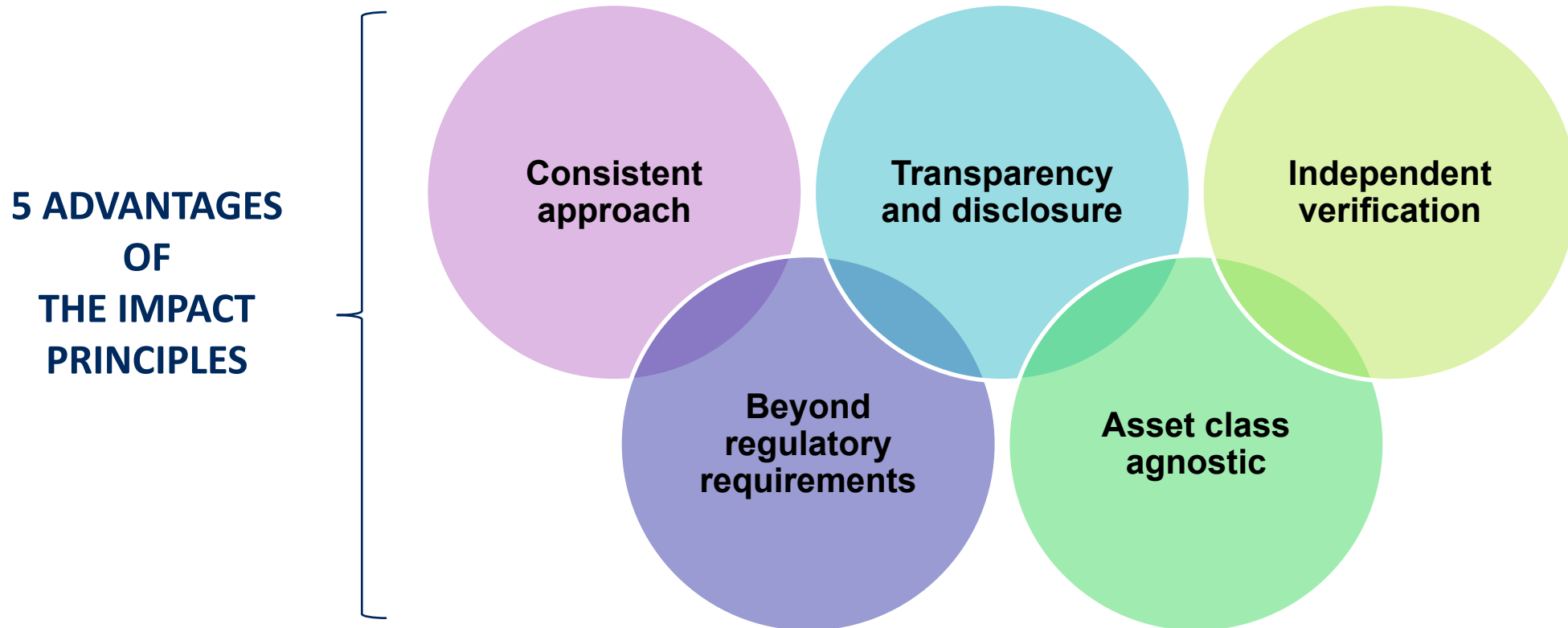
Operating Principles for Impact Management (Impact Principles, IP)



Source: Operating Principles for Impact Management (IP)

Why did we join OPIM?

By becoming a signatory in September 2022, we have committed to robust impact management and reporting across our Impact Driven strategies



Our first independent verification in September 2023 will demonstrate our alignment and enable us to improve our practices.