ESG INTEGRATION IN PRACTICE – GLOBAL

Asian Equities

As long-term, bottom-up investors, assessing the sustainability of a company's returns and financial position has always been at the core of our research and investment decisions.

ESG analysis is a fully integrated and rigorous part of our investment process and impacts our investment process in **four direct ways:**

1. **Initial screening** – ESG helps determine which companies we consider to be investable as part of our initial screening including the exclusion of certain industries (i.e. coal and tobacco).
2. **SRC Classification** – ESG helps underpin our analysis of the return on invested capital (ROIC) and Shareholder Return Classification (SRC) of a company. It is therefore the bedrock on how we assess the sustainability of a company's business model.
3. **Fair Value and recommendation** – ESG is an indirect and direct input into our fair value estimate of a company. Indirect, to the extent that a company's SRC influences the assumptions used in establishing our fair value estimate of a company; and direct, to the extent that we may apply an additional explicit discount/premium to that fair value estimate.
4. **Portfolio construction** – ESG helps shape portfolio construction and can impose limits on position sizing.

The team is focused on fundamental research where written ESG analysis for companies within scope helps the team identify and assess the potential effect of ESG issues on the investment case.

In supplementing their own research, the team also uses Schroders' proprietary tool CONTEXT and draws on the insights of the Sustainable Investment team as well as Schroders' Data Insights Unit (DIU), who provide support on a project basis.

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