Contribution ID: d99f137f-9850-46b4-8f3f-46de30044c9f
Date: 29/07/2019 13:03:27

esma European Securities and Markets Authority

Survey on collection of evidence on undue short-term pressure from the financial sector on corporations

Fields marked with * are mandatory.

Table of contents

- Introduction
- Structure of the questionnaire
- Instructions on how to respond
- Publication of responses
- Data protection
- Definitions, abbreviations, and legal references

Introduction

Under Action 10 of the Action Plan 'Financing Sustainable Growth' [1], the European Commission has invited [2] the three European Supervisory Authorities (ESAs) to each develop a report presenting evidence and possible advice on potential undue short-termism. Short-termism can be defined as "the focus on short time horizons by both corporate managers and financial markets, prioritising near-term shareholder interests over long-term growth of the firm"[3].

The Commission's mandate indicates that decisions taken by corporations do not fully reflect long-term aspects that would be required to put the EU economy on a sustainable path and manage the transition towards a low carbon economy. In particular, as a result of short-term market pressures, some companies may under-invest in long-term value drivers such as innovation and human capital and overlook environmental and social objectives that require a long-term orientation. Consequently, sustainability faces obstacles to develop in a context where incentives, market pressures and prevailing company culture prompt market participants to focus on near-term performance at the expense of mid- to long-term objectives.

Following an initial analysis based on desk research and preliminary quantitative evidence, ESMA has identified six areas which it considers relevant to examine in relation to the Commission's mandate.

These areas are:

- Investment strategy and investment horizon;
- Disclosure of Environmental, Social and Governance (ESG) factors and the contribution of such disclosure to long-term investment strategies;
- The role of fair value in better investment decision-making;
- Institutional investors' engagement;
- Remuneration of fund managers and corporate executives;
- and Use of CDS by investment funds

ESMA is not claiming there is a causal relationship between the abovementioned areas and short-termism; it is rather seeking the views of stakeholders on these areas in order to better understand their interaction with short-termism. As such, responses to this survey will contribute to ESMA's analysis of potential sources of undue short-termism on corporations stemming from the financial sector in the areas of focus. Additionally, responses to the survey will back the identification of any other areas in which short-term behaviour is problematic and where the regulatory rules exasperate (or mitigate) short-term pressures.

Overall, with this survey ESMA is seeking to collect information on market practices and the views of financial market participants. By responding to the questionnaire, market participants will contribute to ESMA's advice to the Commission and as such help shape future policy decisions in relation to short-termism in the financial sector.

[1] European Commission Action Plan Financing Sustainable Growth.

[2] Call for advice to the European Supervisory Authorities to collect evidence of undue short-term pressure from the financial sector on corporations.

[3] Definition of short-termism provided in the second paragraph of section 1 of the Commission's mandate (Mason, 2015).

Structure of the questionnaire

Section I: General information about respondent

The first section of the questionnaire contains questions which will help ESMA understand respondents' profile and whether they agree for their response to the questionnaire to be published on ESMA's website.

All respondents are invited to respond to the questions in this section.

Section II: Investment strategy and investment horizon

In this section of the questionnaire, ESMA invites respondents to provide information on the key features and the focus of their investment strategy as well as on the time horizon(s) they use in their business activities. The questions aim to collect comprehensive information on the strategic approach taken by various market players, depending on their role and objectives, in order to get a broad understanding of how they prioritise short- and long-term values in their investment activities. The responses to the questions in this section are intended to provide evidence on how consistent the long-term value drivers of the investment strategy are with the investment timeframe and the global approach for investment decision-making, and which specific considerations in investment strategies may induce short-termism.

The section is open to all respondents as it seeks information on the interaction between short-termism and general business activities. The questions relating to portfolio holdings are addressed to asset owners and asset managers.

Section III: Disclosure on ESG factors and the contribution of such disclosure to long-term investment strategies

The context for the questions in this section is the EU's 2014 adoption of the Non-Financial Reporting Directive (hereafter 'NFRD') in order to enhance the consistency and comparability of non-financial information disclosed throughout the Union. The NFRD requires large EU companies to disclose information on matters relating to the environment, social and employee aspects, respect for human rights, anti-corruption and bribery issues in an annual non-financial statement to be presented either in the management report or in a separate document.[1]

The NFRD came into force in 2014 for reporting on the financial year starting on 1 January 2017 or during the calendar year 2017, which means that two waves of mandatory non-financial information have now been published in most jurisdictions. Section III of the questionnaire collects information on the experience of market participants with these first two disclosure waves by asking whether, how and to what extent public disclosure on ESG factors, which complements traditional financial disclosure by listed companies, can enable investors to integrate in their decision-making process considerations on a company's current and future ability to create long-term sustainable value for its shareholders and for the society at large. Furthermore, this section raises the question whether any changes relating to requirements on non-financial information are needed at European level to enable investors to take long-term investment decisions.

The questions in this section are primarily addressed to institutional and retail investors that make use of information in issuers' public reporting in their investment decisions, as well as to issuers that provide such ESG related information to investors.

[1] Additionally, the forthcoming Regulation of the European Parliament and of the Council on sustainability-related disclosures in the financial services sector (2018/0179(COD)) will require financial advisers to publish information on their policies on the integration of sustainability risks in their investment advice or insurance advice. However, as this Regulation has not yet entered into force and will not be applicable until 15 months after entry into force, it is not possible at this stage to assess its impact, and it is as such not covered in the questionnaire.

Section IV: The role of fair value in better investment decision-making

In this section of the questionnaire, ESMA seeks to collect further information related to the following statement from the report [1] of the High Level Expert Group (hereafter 'HLEG'): "there is considerable disagreement among interested parties on the appropriate accounting treatment for long-term investments, in particular on whether long-term assets on investors' balance sheets should be valued based on the currently prevailing (daily) market prices – also known as 'mark-to-market' valuation or 'fair value' accounting […] The debate is mainly around equity, equity-type and listed credit instruments on the balance sheets of long-term investors, such as non-financial corporations, insurance companies and banks."

The section contains questions on whether and how fair value may impact the capacity of financial reporting to provide relevant and reliable information on equity instruments held for long-term investment purposes. Responses in this area will help ESMA to assess how the measurement and disclosure of fair value may impact the selection of a short- or long-term horizon, as well as to assess whether the transparency benefits arising from the use of fair value for financial instruments, particularly equity instruments, outweigh the intrinsic potential volatility of fair value. Furthermore, whilst Level 1 fair value measurement is based on quoted prices in active markets and, as such, it has a high degree of reliability, ESMA is also interested in exploring the usefulness of Level 2 and Level 3 fair value measurements [2] and the extent to which investors are willing to take these fair value measurements into consideration in their long-term investment decisions.

The European Commission has issued two requests for advice to the European Financial Reporting Advisory Group (EFRAG) to assess the impact of IFRS 9 Financial Instruments on equity investments and to investigate potential alternatives to fair value accounting for equity and equity-type instruments held for the long-term. ESMA closely monitors and contributes to EFRAG's work in this area [3]. In section IV of the questionnaire ESMA investigates more specifically the reasons underlying any connection between fair value accounting and the emergence of short-term pressures in the investment practice of issuers.

The questions in this section are primarily addressed to institutional and retail investors that make use of information in issuers' financial statements in their investment decisions, as well as to issuers that prepare financial statements.

[1] https://ec.europa.eu/info/sites/info/files/180131-sustainable-finance-final-report_en.pdf

[2] Inputs to Level 2 fair value measurements are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Inputs to Level 3 fair value measurements are unobservable inputs for the asset or liability.

[3] http://www.efrag.org/News/Public-183/New-EFRAG-consultation-on-Equity-Instruments--Research-on-Measurement

Section V: Institutional investors' engagement

In this section, ESMA invites institutional investors to share their experiences and views on whether and how they monitor the long-term value maximisation of their investee companies by further engaging with them and voicing their potential concerns. The questions of this section indirectly relate to the revised Shareholder Rights Directive that established specific requirements in order to encourage shareholder engagement in EU listed companies. ESMA acknowledges that the Directive has entered into application only recently. In this section ESMA seeks to collect information on how engagement activities are put in place at the time of the publication of the questionnaire based on the current regulatory framework in the relevant Member States.

For the purposes of this questionnaire, engagement is defined as any monitoring and interaction by institutional investors with investee companies, including the exercise of voting rights and other activities to influence the investee company such as activist strategies.

The questions in this section are primarily addressed to institutional investors.

Section VI: Remuneration of fund managers and corporate executives

In this section, ESMA examines whether remuneration policy and practices of fund managers can be a driver of short-termism. Stakeholder feedback in this regard will provide further evidence in relation to the statements of the HLEG report about the “frequent separation of the behaviour of some financial intermediaries from the preferences of the ultimate beneficiaries” and that “job tenure and financial rewards for analysts, asset/money managers and traders” can be heavily dependent on short-term returns.

The questions in part A of this section are addressed to UCITS management companies, AIFMs, and self-managed UCITS investment companies and AIFs as they relate to how remuneration practices impact investment behaviour of asset managers vis-à-vis the funds they manage and the investors in such funds. The questions are particularly related to the requirements arising from the UCITS Directive [1], AIFMD [2], the Guidelines on sound remuneration practices under the UCITS Directive [3] and the Guidelines on sound remuneration practices under the AIFMD [4].

The questions in part B of this section are primarily addressed to issuers with reference to the remuneration packages assigned to their executives. Evidence on this aspect is expected to provide an indication of how executives’ incentives to pursue long-term vs. short-term performance can be skewed by the way their remuneration package is designed.

In addition, each section invites all stakeholders to comment on the potential contribution to short-termism from remuneration practices for fund managers or corporate executives.

[1] Directive 2009/65/EC

[2] Directive 2011/61/EU

[3] ESMA/2016/575

[4] ESMA/2013/232

Section VII: Use of CDS by investment funds

Building on the work already conducted by ESMA [1] looking at the prevalence of sell-only or net sell Credit Default Swaps (CDS) positions held by UCITS funds, this section of the questionnaire aims to collect information on the use of CDS by all investment funds. The existing evidence shows some use of sell only or net sell holdings of CDS and ESMA would like to explore this topic further in the context of short-termism. ESMA will use the information it collects from stakeholders to assess whether the use of such instruments could be one of the potential drivers of short-termism.

Sell-only or net sell CDS positions may indicate increased short-term risk taking by funds in order to generate short-term profits, thereby diverting funds from investment in the real economy and indirectly contributing to a short-term profit taking approach. This is why ESMA would like to explore this area by gathering evidence from stakeholders, particularly regarding the reasons for sell only or net sell holdings of CDS positions, and how the tail risk of CDS is managed. ESMA recognises that there may be other categories of derivatives that may also merit attention, so one of the questions allows respondents to comment on other products as well.

The questions in this section of the questionnaire are addressed to UCITS management companies, self-managed UCITS investment companies and AIFMs.

[1] (see “Drivers of CDS usage by EU investment funds” in Trends, Risks and Vulnerabilities Report No.2 from 2018)

Section VIII: Final

The last section of the questionnaire gives respondents the chance to raise any additional considerations on the topic of undue short-term pressure on corporations from the financial sector which they have not been able to reflect elsewhere in the survey.

All respondents are invited to respond to this part of the questionnaire.

How to respond

Deadline

ESMA will consider all responses received by **29 July 2019**

Technical instructions

The questionnaire is presented in EUSurvey which is the European Commission's online survey making tool.

In order to access the questionnaire, please click on the following link: https://ec.europa.eu/eusurvey/runner/ESMA-SUS-2019

When you click on the link, EUSurvey will open in your default browser and you will see the questionnaire. Before starting to fill in the questionnaire, we encourage you to read through all questions.

As you go through the questionnaire and fill in your responses, additional questions will sometimes appear. Such additional questions are based on your response to a previous question and are intended to collect further information about the response you have provided. However, unless specifically mentioned, you are invited to respond to all questions.

The full set of responses is submitted by clicking the "Submit" button at the end of the questionnaire. Upon submission, the system will offer you to print or download your responses for your own reference.

For any questions regarding the questionnaire, please send an email to short.termism@esma.europa.eu

Publication of responses

All contributions received will be published following the close of the survey, unless you request otherwise. Please clearly indicate under question [6] if you do not wish your contribution to be publicly disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure. A confidential response may be requested from us in accordance with ESMA's rules on access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by ESMA's Board of Appeal and the European Ombudsman.

Data protection

Information on data protection can be found at www.esma.europa.eu under the heading 'Data protection'.

Definitions, abbreviations, and legal references

CDS
Credit Default Swaps

Corporate executives
Top managers, such as the Chair or the CEO, and/or members of the board of directors.

Engagement
For the purpose of this questionnaire, any monitoring and interaction by institutional investors with investee companies, including the exercise of voting rights and other activities to influence the investee company such as activist strategies

ESG
Environmental, Social and Governance

Fair value
The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (IFRS 13)

HLEG
High Level Expert Group

Holding period
For the purpose of this questionnaire, 'holding period' is defined as the elapsed time between the initial date of purchase and the date on which the investment is sold or matured if held to maturity.

Identified Staff
Categories of staff, including senior management, risk takers, control functions and any employee receiving total remuneration that falls into the remuneration bracket of senior management and risk takers, whose professional activities have a material impact on the management company's risk profile or the risk profiles of the UCITS that it manages and categories of staff of the entity(ies) to which investment management activities have been delegated by the management company, whose professional activities have a material impact on the risk profiles of the UCITS that the management corporate manages.

Institutional investors
Asset owners or asset managers acting on their behalf

Long-term investment / value
For the purpose of this questionnaire, please consider these expressions in the context set out in the Commission's mandate on undue short-termism and in the European Commission's Action Plan 'Financing Sustainable Growth'.

Non-Financial Reporting Directive / NFRD

Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups

Revised Shareholder Rights Directive
Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement

Short-termism
The focus on short time horizons by both corporate managers and financial markets, prioritising near-term shareholder interests over long-term growth of the firm

I. General information about respondent

Please note that the questionnaire should be read in conjunction with the explanatory note, definitions and instructions. If you have not already read the explanatory note, please do so before you start filling in your responses.

* 1. Name of the company / organisation

1400 character(s) maximum

Schroder Investment Management Limited

* 2. Type of respondent

UCITS management company

* 3. Industry

Financials

* 4. Are you representing an association?

- ○ Yes
- ● No

* 5. Country

United Kingdom

* 6. Please indicate if wish to have your response published on the ESMA website

- ☐ I do not wish my response to be published
- ☑ I wish my response to be published

*

7. This questionnaire considers long-term investment in the framework of sustainable finance, under the assumption that long-term investment projects should be consistent with the objective of supporting the shift towards a more sustainable financial and economic system. In this context, for the purpose of filling in this questionnaire, what timeframe would you consider when defining long-term investment?

- ( ) 3-5 years
- ( ) 6-10 years
- ( ) 11-30 years
- ( ) +30 years
- (x) Other

* Please explain your response

1400 character(s) maximum

As reflected in our responses below, we broadly look to a long-term horizon (at least five years) both from an “immediate future” business perspective and delivery to clients perspective. But what is “long-term” will ultimately depend on the type of client, type of mandate, investment objective and asset class.

Asset classes have naturally different time horizons, e.g. money market funds are designed for a very liquid, short-term investment while private equity, infrastructure, and real estate are much less liquid and significantly longer-term. What is long-term for money market funds will be a very different period from what is long-term for private equity.

How long is “long-term” will also depend on the strategy and market circumstances. There is no one-size-fits-all definition. Due to this diversity of asset classes, investment approaches and clients, generally aggregated figures are not really meaningful – a point that is relevant to several sections throughout this survey.

II. Investment strategy and investment horizon

Click here for the list of definitions, abbreviations and legal references included in the Explanatory Note

8. Which time horizon do you apply in your general business activities?

Please tick one time horizon per category

	Less than 1 year	1-4 years	5-8 years	9-12 years	More than 12 years	Not applicable
Overall	( )	( )	(x)	( )	( )	( )
- Business strategy	( )	( )	(x)	( )	( )	( )
- Profitability	( )	(x)	( )	( )	( )	( )
- Funding	( )	( )	( )	( )	( )	(x)
- Investment	( )	( )	(x)	( )	( )	( )
- Trading	( )	( )	(x)	( )	( )	( )
- Other	( )	( )	( )	( )	(x)	( )

* Please mention your other activities and indicate the time horizon you apply to them

1400 character(s) maximum

More as an explanatory note of our response above. For our strategic horizon we look generally at 5 years. But in terms of overall business planning, we look to how the investment landscape might evolve over a much longer period, closer to 20 years.

It is not clear how to disaggregate investment and trading as the latter is the implementation of the former. If "trading" means proprietary trading, then this activity does not apply to Schroders.

9. In your experience, to which extent do the following nodes in the investment value chain contribute to the tendency towards short-termism?

	1: Not at all	2: To a small extent	3: To some extent	4: To a large extent	5: To a great extent
Retail investors			●		
Asset owners (i.e. giving the investment mandate either on their own account or on the account of retail investors)		●			
Asset managers (i.e. those in charge of fulfilling the mandate of asset owners)	●				
Top management of listed issuers		●			
Sell-side analysts			●		
Other					●

* Please explain your response

2800 character(s) maximum

Short-termism does not occur at single point in the value chain. It is the outcome of incentives, expectations and actions of all actors and therefore to a certain extent, everyone could contribute. In practice, we see more pressure from analysts and, to some extent, behaviour across top management of listed issues may be driven by analyst behaviour. Still, alignment of company management interests with the long-term interest of shareholders is part of the old principal-agent issue and forms a significant component of our engagement with investee companies across several issues, including remuneration. Furthermore, encouraging companies to adopt longer-term approaches to their stakeholder relationships more broadly is one of the key aims of our engagement.

Asset manager activity will generally reflect the overall investment philosophy and what clients want. Our investment philosophy and process are long-term and, as a general rule, we aim to deliver results to clients over a market cycle, that is approximately five years. Client behaviour is hard to aggregate particularly as we have both institutional and retail clients.

Our Global Investor Study 2019 (https://www.schroders.com/en/sysglobalassets/_global-shared-blocks/gis-2019/theme-1/global_investor_study_2019_t1.pdf) showed that the majority (77%) of retail investors check on a monthly basis their investment in what is supposed to be a long term product. Moreover, only 17% did not react in response to short-term market volatility in Q4 2018. Across the majority who did react, a large part moved some of their portfolio into lower risk investments or into cash. This translates to an average holding period of 2.6 years which is almost half the generally recommended five years.

Institutional clients that make up 66% of our business, consist mainly of pension funds and insurance companies that are naturally longer-term.

* Please mention any other nodes of the investment value chain that you believe are affected by the tendency towards short-termism and indicate the extent to which they are affected between 1 (Not at all) and 5 (To a great extent)

1400 character(s) maximum

Other: (5 – to a great extent) There are other market participants that work with much shorter-term horizons, such as high frequency traders whose aim is to gain from short-term market inefficiencies. Their activity accounts for a large part of trading and turnover in the market (which is why using aggregated market statistics to judge the degree of short-termism can be misleading).

Other: (3 – to some extent) Intermediaries and particularly investment consultants that advise institutional clients play a significant role in determining asset owner time horizons.

10. To which extent does each of the following factors result in short-termism by your institution?

	1: Not at all	2: To a small extent	3: To some extent	4: To a large extent	5: To a great extent
Macroeconomic environment		X			
Prudential regulation		X			
Market pressures		X			
Profitability	X				
Shareholders' interest		X			
Business objectives	X				
Competitive pressure	X				
Client demand			X		
Company reporting requirements		X			
Executive remuneration structure		X			
Other					X

* Please explain your response

2800 character(s) maximum

First, the most important factor that we see missing from this list is investment philosophy and process applying across the spectrum. The Schroders investment process is long-term and hence our response above is not about what results in short-termism by Schroders but rather where short-term pressures may arise that will need to be managed for us to implement our long-term approach.

Second, how these factors are relevant will depend on the circumstances. For example, the connection between short-termism and market pressure and shareholders' interest may change under market stress.

Third, the lines between these factors are in some cases blurred. For example, the macroeconomic environment and market pressures may be the underlying factor why clients or shareholders may think on a shorter-term basis than expected (which is what we understand by "client demand").

NB: If profitability means the profitability of Schroders as a corporate entity, we consider this to be irrelevant to our long-term investment approach. If profitability means that of our investee companies, we believe this is subject to short-term pressures by sell-side analysts and broader market focus on short-term results. This, however, is not relevant for us as it is too short-term and our focus as asset managers is on the long-term sustainable value of companies.

* Please mention the other factor(s) that may result in short-termism by your institution and indicate their relevance between 1 (Not at all) and 5 (To a great extent)

1400 character(s) maximum

As above, investment process and philosophy are key determinants of whether a long- or a short-term approach is taken. (5 – to a great extent).

11. What is the actual holding period prevailing in your investment strategy?

Please respond on a best-effort basis and tick one holding period per category of securities

	Less than 1 year	1-4 years	5-8 years	9-12 years	More than 12 years	Not applicable
Equity	○	○	●	○	○	○
Bonds	○	○	●	○	○	○
Other	○	○	○	○	●	○

* Please mention the other categories of securities which you invest in and indicate the holding period you generally apply

1400 character(s) maximum

As in our response to question 7, aggregating holding period figures across a diverse set of products that are managed for a diverse set of clients is quite challenging and hence, there is no one "prevailing" holding period. A large part of our equity products aim to deliver their investment objective over a market cycle, that is approximately a period between 3 and 5 years (closer to the latter). This is also reflected in portfolio turnover figures that are roughly between 20% and 50%.

Private equity holdings via Schroder Adveq have much longer holding period but again, this reflects the nature of the underlying asset class.

12. To which extent does each of the following factors drive the actual holding period prevailing in your investment strategy?

	1: Not at all	2: To a small extent	3: To some extent	4: To a large extent	5: To a great extent
Profitability		X			
Shareholders' interest	X				
Competitive pressure	X				
Client demand			X		
Remuneration practices in the financial sector	X				
Economic activities			X		
ESG			X		
Monetary policies / macroeconomic factors			X		
Non-prudential regulation (e.g. tax regulation)		X			
Prudential regulation		X			
Company reporting requirements (any type of disclosure)		X			
Other					X

* Please explain your response

2800 character(s) maximum

Other (5 – to a great extent): investment process

As in our response to question 10, we consider client demand a determinant of the actual holding period and points like monetary policy, macroeconomic factors and economic activities are as important for our strategy and investment process as they are for client behaviour. The long-term nature of our investment process remains fairly constant independently of client demand but the two are nevertheless connected as our aim is to manufacture products that are long-term and attract clients for whom these products are suitable.

Which is why, there needs to be a clear distinction between investment turnover and client turnover. Our funds have well defined investment processes which is the primary driver of investment turnover. Whilst higher levels of client subscriptions or redemptions can increase investment turnover due to the need to trade more actively to meet those client flows, this is somewhat artificial as it reflects that client activity rather than investment conviction. We seek at all times to be clear with clients about our investment process and time horizon and as much as possible to attract clients with a similar time horizon to that adopted by the fund in question.

* Please provide (qualitative) information on the holding period considerations within your investment strategy

1400 character(s) maximum

See response to questions 10 and 12.

13. On a best-effort basis, in the next 2 years, how do you expect the average holding period of the following portfolios to evolve?

Please tick one holding period per category of assets

	Increasing by less than 6 months	Increasing by 6- 12 months	Increasing by more than 12 months	No (notable) change	Decreasing by less than 6 months	Decreasing by 6-12 months	Decreasing by more than 12 months
Equities	○	○	○	●	○	○	○
Fixed Income	○	○	○	●	○	○	○
Other	○	○	○	●	○	○	○

* Please provide any relevant information supporting your expectations

1400 character(s) maximum

Our investment process and approach are long-term and, thus, unlikely to change in the near future. But there is geopolitical risk in the context of Brexit and ongoing trade tensions and there are concerns about recession in 2020 in a number of economies including Germany and the US. It remains unclear to what extent loose monetary policy will reverse and whether this will involve rising interest rates.

In the context of this uncertainty, it is not unlikely to see more client turnover particularly amongst retail clients. But again, we need to clearly distinguish between investment turnover and client turnover. Whilst investment turnover is determined primarily by the investment process, something which is influenced only in a limited way by the macroeconomic environment, if markets are more volatile in the coming years we may see higher levels of client activity and, therefore, shorter holding periods. We have responded above with ‘no notable change’ to make clear that our investment philosophy and process will not change, and therefore it is not likely our investment holding period will change in any significant way. However, from a client holding period perspective, it seems plausible that holding periods may shorten on average in a more volatile environment.

* Please mention the other categories of assets which you invest in

1400 character(s) maximum

We have recently expanded our product offering to include private assets and alternatives, and particularly real estate (through the acquisition of Algonquin) and private equity through Schroder Adveq. These assets are inherently longer term with holding periods of 10 years and over. We do not foresee notable changes in the holding periods for these assets.

14. To which extent will the expected evolution in the average holding period, indicated under question 13, be driven by each of the following factors?

14.a Equities

	1: Not at all	2: To a small extent	3: To some extent	4: To a large extent	5: To a great extent
* Profitability	○	●	○	○	○
* Shareholders’ interest	●	○	○	○	○
* Competitive pressure	●	○	○	○	○
* Client demand	○	○	●	○	○
* Remuneration practices in the financial sector	●	○	○	○	○
* Economic activities	○	○	●	○	○
* ESG	○	○	●	○	○
* Monetary policies / macroeconomic factors	○	○	●	○	○

* Non-prudential regulation (e.g. tax regulation)		X			
* Prudential regulation		X			
* Company reporting requirements (any type of disclosure)		X			
* Other					X

14.b Fixed Income

	1: Not at all	2: To a small extent	3: To some extent	4: To a large extent	5: To a great extent
* Profitability		X			
* Shareholders’ interest	X				
* Competitive pressure	X				
* Client demand			X		
* Remuneration practices in the financial sector	X				
* Economic activities				X	
* ESG			X		
* Monetary policies / macroeconomic factors				X	
* Non-prudential regulation (e.g. tax regulation)		X			
* Prudential regulation		X			
* Company reporting requirements (any type of disclosure)		X			
* Other					X

* Please explain your response and, if necessary, indicate any other types of securities you hold and the factors which drive your holding period for those securities

2800 character(s) maximum

See our response to question 12. We consider monetary policy/macroeconomic factors and economic activities to be more relevant for the valuation of fixed income instruments compared to equities and hence investment turnover for fixed income is more likely to be sensitive to these factors.

* Please mention any other factors which you believe will imply a change in the average holding period for your equity and / or bonds and indicate their relevance between 1 (Not at all) and 5 (To a great extent)

1400 character(s) maximum

Other (5 – to a great extent): investment process

III. Disclosures on ESG factors and their contribution to long-term investment strategies

Click here for the list of definitions, abbreviations and legal references included in the Explanatory Note

15. Based on your experience, please indicate to which extent you agree with the following statement: "Disclosure of ESG information by listed companies enables investors to take long-term investment decisions".

- ○ 1: Totally disagree
- ○ 2: Mostly disagree
- ○ 3: Partially disagree and partially agree
- ● 4: Mostly agree
- ○ 5: Totally agree

* 17. Why does disclosure of ESG information by listed companies enable long-term investment?

Please respond by selecting one or several items from the list below

- ☑ ESG disclosure provides insights into a listed company's long-term risk profile
- ☑ ESG disclosure provides insights into a listed company's future financial performance
- ☑ ESG disclosure complements the information provided by listed companies in their financial statements
- ☑ Other

* Please specify

1400 character(s) maximum

ESG disclosure does not "enable", i.e. does not necessarily lead to long-term investment but it certainly supports it. Put another way, we believe the selected statements to be true but the question "why does disclosure of ESG information by listed companies enable long-term investment" starts from a wrong basis. Long-term investment is possible even without ESG disclosure. The added value of ESG information is that it makes it easier and more effective. And in this context, more standardised, comparable and quantifiable ESG information would be helpful.

This note is also relevant for question 15 and the reason why our response to that question is not "totally agree". Availability of ESG information by listed companies enables investors to take long-term investment decisions but lack of ESG information does not mean that investors cannot take long-term investment decisions. It makes it somewhat harder and increases the need for internal tools and analysis.

18. Even though you acknowledge that disclosure of ESG information by listed companies could enable long-term investment, you might have observed impediments as to how this link may work in practice. To which extent each of the following factors may discourage investors from using ESG disclosure to apply a long-term investment horizon?

Please respond by selecting one or several items from the list below

	1: Not at all	2: To a small extent	3: To some extent	4: To a large extent	5: To a great extent
* Lack of sufficient independent assurance on the provided ESG disclosure	●	○	○	○	○
* Lack of quantitative evidence regarding how the listed company contributes to national or international sustainability targets	○	○	●	○	○
* Lack of consistency between the disclosed ESG policies and evidence of the listed company's actions	○	○	○	●	○
* Lack of sufficiently forward-looking disclosure on ESG risks and opportunities	○	○	●	○	○
* Lack of comparability between different listed companies' disclosure due to the NFRD disclosure requirements not being sufficiently detailed and allowing for the use of various disclosure frameworks	○	○	○	●	○
* Lack of a clear link between ESG matters and the current and future performance of the listed company	○	●	○	○	○
* Lack of an integrated presentation and analysis of financial and non-financial performance	○	●	○	○	○
* Lack of information on the disclosure framework (s) which listed companies use	○	○	●	○	○
* Lack of an explicit statement indicating that the listed company's Board of Directors takes responsibility for the relevance, accuracy and completeness of the ESG disclosure provided	●	○	○	○	○
* Lack of access to / availability of ESG disclosure in data aggregators or other source data providers	○	●	○	○	○
* Lack of sufficient knowledge by investors on how to incorporate ESG disclosure into their decision-making process	●	○	○	○	○
* Other	●	○	○	○	○

19. In your view, would requiring specific disclosures on intangible assets which are not accounted for in the financial statements enable long-term investment decisions?

- (x) Yes
- ( ) No

* Please explain why and indicate which types of intangible assets should be disclosed and which methods of valuation should be used

1400 character(s) maximum

There is no defined list of measures for which disclosure would automatically make long-term investment easier. For example, companies' management of human capital represents a key asset (through their employer brands and internal employee management capabilities), which is rarely afforded sufficient disclosure to support investment analysis.

The question is framed in terms of "intangible assets" whereas many of the most important unreported measures relate to activities rather than assets per se. Limiting the question to assets constrains the breadth of factors into which investors would benefit from increased disclosure.

20. The NFRD gives companies flexibility to disclose non-financial information to the extent necessary for an understanding of the undertaking's development, performance, position and the impact of its activity in relation to non-financial matters. Do you consider that further requirements are needed to increase the level of detail in the disclosure requirements regarding non-financial information?

- (x) Yes
- ( ) No

* Please indicate which of the following approaches you consider appropriate:

- ( ) Detailed disclosure requirements should be set out in an EU regulation (i.e. a piece of legislation which is directly applicable in all EU Member States)
- ( ) Detailed disclosure requirements should be included in the NFRD (which is a directive and as such leaves it to Member States to transpose the disclosure requirements into their national law)
- ( ) The NFRD should be amended to require use of a specific, binding disclosure framework (e.g. based on the principles included in the European Commission's guidelines on non-financial reporting or other established disclosure frameworks)
- (x) Other

* Please explain the other approach considered

2800 character(s) maximum

We believe that NFRD could be updated to bring in a more standardised approach to disclosure for material issues and at the same time capture more companies. For example, we have been very supportive of the Task Force on Climate Related Financial Disclosure and encourage companies to report against the key elements of this framework. However, we would be against updating NFRD to require a binding disclosure framework.

21. Do you consider that further steps in the area of non-financial reporting are needed at the national or the European level to enable investors to take long-term investment decisions?

- (x) Yes

- [ ] No

* Please indicate which of the following approaches you consider appropriate:

- [x] The NFRD should be amended to require a broader group of companies to disclose ESG information
- [ ] The NFRD should be amended to require that ESG disclosure is audited by an external, independent entity
- [ ] Enforcement powers on ESG disclosures should be strengthened and made more consistent across the Union
- [x] Other

* Please specify

1400 character(s) maximum

We believe that NFRD should be amended to include a broader group of companies but the focus should be on material issues instead of all ESG information in a broader sense as this could encourage a box ticking approach that is not particularly informative. This would also be the danger with increasing enforcement powers which would most probably lead to boilerplate language that is targeted at regulators rather than investors.

An additional requirement of an external, independent audit would serve to increase cost with no significant benefit.

IV. The role of fair value in better investment decision-making

Click here for the list of definitions, abbreviations and legal references included in the Explanatory Note

22. Based on your experience, please indicate to which extent you agree with the following statement: “For the purpose of undertaking an internal assessment of the performance of long-term investments held in equity instruments, fair value provides a company’s management with relevant information in order to better understand the short-term and the long-term consequences of the investments held”

- [ ] 1: Totally disagree
- [ ] 2: Mostly disagree
- [ ] 3: Partially disagree and partially agree
- [ ] 4: Mostly agree
- [x] 5: Totally agree

* Please explain your response and provide evidence, where available

1400 character(s) maximum

We do not consider that there is a meaningful alternative to fair value reporting.

23. Based on your experience, please indicate to which extent you agree with the following statement: “For the purpose of enabling an external analyst or investor to assess the performance of long-term investments held in equity instruments by a company, fair value provides relevant information in order to better understand the short-term and the long-term consequences of the investments”

- ( ) 1: Totally disagree
- ( ) 2: Mostly disagree
- ( ) 3: Partially disagree and partially agree
- ( ) 4: Mostly agree
- (x) 5: Totally agree

* Please explain your response and provide evidence, where available

1400 character(s) maximum

.

24. Is the current accounting treatment for equity instruments under IFRS 9 [1] a decisive factor in discouraging a company from undertaking new long-term investments in equities?

[1] Under IFRS 9 Financial Instruments equity instruments are accounted for at fair value with the possibility to exclude fair value changes from the statement of profit or loss

- ( ) Yes
- (x) No

* Please explain your response, including whether you already apply IFRS 9, and provide evidence where available

1400 character(s) maximum

There is currently no evidence to suggest that the IFRS 9 requirements discourage companies from undertaking new long-term investments.

25. Is the current accounting treatment for equity instruments under IFRS 9 [1] a decisive factor in triggering divestment by a company of existing equity holdings elected for the long-term?

[1] Under IFRS 9 Financial Instruments equity instruments are accounted for at fair value with the possibility to exclude fair value changes from the statement of profit or loss

- ( ) Yes
- (x) No

* Please explain your response, including whether you already apply IFRS 9, and provide evidence where available

1400 character(s) maximum

See our response to question 24.

26. In your view, what are the factors that may impact the relevance to users of financial statements of fair value measurements for long-term investments?

You may choose more than one factor

- [ ]

Volatility in reported earnings
- [x] Measurement errors (in Level 2 or 3 Fair Value)
- [x] Complexity of calculations (in Level 2 or 3 Fair Value)
- [x] Management's opportunistic behaviour (in Level 2 or 3 Fair Value)
- [ ] Insufficient involvement of independent third-party assessment (in Level 2 or 3 Fair Value)
- [ ] Limited relationship with the expected developments of fair value in the long-term
- [ ] Other

V. Institutional investors' engagement

Click here for the list of definitions, abbreviations and legal references included in the Explanatory Note

27. Is your investment strategy predominantly active or passive?
- (•) Active
- ( ) Passive

* Predominantly long-term or short-term?
- ( ) Short-Term
- (•) Long-Term

* Please explain your response also in connection with the investment time horizon you have indicated under question 8

2800 character(s) maximum

Long-term in the sense that we look to deliver outcomes over at least one market cycle. However, we have investments in private assets such as infrastructure and real estate as well as private equity via Schroders Adveq that are very long-term.

Please respond to the remainder of this section based on (i) the investment strategy you have indicated under question 27 and (ii) the investment time horizon you have indicated under question 8

28. Please elaborate on how the actual holding period of your investments (as you have indicated under question 11) matches with your investment mandate

1400 character(s) maximum

29. To which extent does your firm integrate long-term value considerations for the purpose of setting its investment strategy (and subsequent portfolio allocation choices)?
- ( ) 1: Not at all
- ( ) 2: To a small extent
- ( ) 3: To some extent
- ( ) 4: To a large extent

- [x] 5: To a great extent

30. To which extent does your firm integrate long-term value considerations for the purpose of setting its engagement policy (and subsequent engagement activities)?

- [ ] 1: Not at all
- [ ] 2: To a small extent
- [ ] 3: To some extent
- [ ] 4: To a large extent
- [x] 5: To a great extent

31. How does your firm engage with the investee companies in order to mitigate any potential sources of undue short-termism?

Please select one or several options from the below list

- [x] Voting at the Annual General Meeting (AGM)
- [x] Private engagement (bilateral meetings, conference calls, etc.)
- [x] Collective engagement initiatives (coalitions, engagement platforms, etc.)
- [ ] Litigation (or a threat to use litigation as a negotiating tool)
- [x] Other

* Please specify

1400 character(s) maximum

Our engagement also includes discussions with company advisors and other stakeholders. On rare occasions, we will make some concerns public as was the case with Unilever.

We want to stress, however, that we prioritise our engagement based on the materiality of issue we have identified and our exposure to the company concerned. The topic on which we engage will depend on individual circumstances. As such, we do not engage with investee companies to mitigate sources of undue short-termism, or at least not directly. We engage on the issues that need to be addressed in each case. These usually are about corporate strategy, board structure, remuneration, governance oversight, human capital management, supply chain management and climate change. The common feature of all engagements is how to ensure long-term sustainable value across our investee companies.

*In case you selected **more than one option** in Question 31, please explain how you select different tools used for engagement*

2800 character(s) maximum

It is our policy to vote all shares at all meetings globally, except where there are restrictions that make it too onerous or expensive to vote compared to the benefits of doing so. In 2018, we voted on approximately 99% of total resolutions at 5,227 meetings worldwide.

In terms of engagement and whether this is private or collective with other shareholders, this will depend on circumstances. For further details, see our Sustainable Investment Report 2018 (https://www.schroders.com /en/sysglobalassets/digital/insights/2019/pdfs/sustainability/schroders-annual-sustainable-investment-report-2018-cs1179.pdf).

* 32. What are the main topics your firm engages on in order to mitigate any potential sources of undue short-termism?

You may choose more than one factor

- [ ] Remuneration of directors
- [ ] Board appointments (including board diversity, independence, tenure)
- [ ] Related party transactions
- [ ] Pay-out policy (dividends, share buybacks, etc.)
- [ ] ESG / sustainability-related
- [x] Other

* Please specify

1400 character(s) maximum

The answer is effectively all of the above but, as mentioned in response to question 31, we don't engage for the sake of mitigating short-termism alone. Independently of whether there are undue short-term pressures in the market, our engagement is such that long-term orientation is key. For example, we engage with companies on their strategy to ensure that they will produce adequate returns for shareholders over the long-term. We engage on the composition and effectiveness of the Board to ensure that it is focused on the long-term sustainable generation of value. We engage on remuneration to ensure a focus on long-term incentive arrangements and favour long term incentives that are paid in share which have a performance and vesting period of at least 5 years.

All these issues will indirectly address undue short-termism but short-termism is not the driving force behind our engagement. The driving force is long-term value for clients.

* 33. To which extent does your firm rely on proxy advisors for the purpose of deciding how to vote in order to mitigate any potential sources of undue short-termism?

- ( ) 1: Not at all
- (•) 2: To a small extent
- ( ) 3: To some extent
- ( ) 4: To a large extent
- ( ) 5: To a great extent

* Please indicate from how many proxy advisors you obtain advice and indicate whether you have your own engagement team and, if you do, its size

1400 character(s) maximum

Although we use one service provider for the processing of all proxy votes and we do receive some research on resolutions, our Corporate Governance specialists ultimately make the voting decision and assess each proposal, by applying our voting policy and guidelines to each item. In doing so, they consider a range of factors including the circumstances of each company, long-term performance, governance, strategy and the local corporate governance code (if any). To make a voting decision, our specialists will draw on external research including that of our proxy voting service provider, public reporting but also, importantly, our own research and, where relevant, consider any previous and ongoing engagement with the company concerned.

Schroders has an experienced and well-resourced Sustainable Investment team which has been embedded as part of our overall investment processes for some time. The team comprises of 17 dedicated ESG professionals who are responsible for ESG specialist engagement, voting and facilitating ESG integration into the investment process across teams and asset classes, ESG data management, sustainability and client reporting and product development. This team has been in place since 1998 and together has over 160 years' combined investment experience.

34. Please indicate your agreement with the following statement: "Proxy advisors take into consideration long-term value when they provide voting advice"

- ○ 1: Totally disagree
- ○ 2: Mostly disagree
- ○ 3: Partially disagree and partially agree
- ● 4: Mostly agree
- ○ 5: Totally agree

* Please provide quantitative or anecdotal evidence to corroborate your response

1400 character(s) maximum

.

35. Please indicate your agreement with the following statement: "Engagement activities can be an efficient way of mitigating any potential sources of undue short -termism"

- ○ 1: Totally disagree
- ○ 2: Mostly disagree
- ○ 3: Partially disagree and partially agree
- ● 4: Mostly agree
- ○ 5: Totally agree

* Please provide quantitative or anecdotal evidence to corroborate your answer

1400 character(s) maximum

Engagement cannot eliminate all sources of short-termism but can mitigate those that relate to company management behaviour. Successful example is what has been achieved in the UK with many companies discontinuing quarterly reporting.

36. To which extent do you consider your engagement activities successful in mitigating any potential sources of undue short-termism?

- ○ 1: Not at all
- ○ 2: To a small extent
- ○ 3: To some extent
- ● 4: To a large extent
- ○ 5: To a great extent

* Please provide quantitative or anecdotal evidence to corroborate your answer.

1400 character(s) maximum

We log all instances where we have engaged with companies and requested change on ESG-specific issues. We then review company progress and categorise this in five categories: achieved; almost; some change; no change; no further change required. In our experience, it takes an average of 2 years for companies to affect the change requested. This is indicative of the long-term nature of our stewardship activities, in that, affecting change takes time and the effectiveness of that dialogue itself is dependent on a long-term relationship with the company that is based on mutual trust.

For further details, see our Sustainable Investment Report 2018 (https://www.schroders.com/en/sysglobalassets/digital/insights/2019/pdfs/sustainability/schroders-annual-sustainable-investment-report-2018-cs1179.pdf).

37. Which are the main obstacles that institutional investors face when engaging with investee companies, and how could they be addressed in your view?

2800 character(s) maximum

The extent to which engagement might contravene regulations on inside information and market abuse remains unclear. Moreover, legal certainty is needed in cases of collective engagement, that it does not constitute 'acting in concert'. In our response to the FCA Discussion Paper 19/1 (https://www.fca.org.uk/publications/discussion-papers/dp19-1-building-a-regulatory-framework-effective-stewardship) we urged the FCA to address these points and set out in detail what they consider to be permitted activities. In this context, we welcome the ESMA statement (https://www.esma.europa.eu/sites/default/files/library/esma31-65-682_public_statement_concerning_shareholder_cooperation_and_acting_in_concert.pdf) on shareholder cooperation and acting in concert but still have some concerns around implementation on a national level.

38.Please indicate your agreement with the following statement: "The recent entry into application of the revised Shareholder Rights Directive is going to increase the extent to which your firm takes into account long-term value considerations for the purpose of setting your investment strategy and engagement policy"

- [ ] 1: Totally disagree
- [ ] 2: Mostly disagree
- [ ] 3: Partially disagree and partially agree
- [x] 4: Mostly agree
- [ ] 5: Totally agree

* Please elaborate and explain which regulatory improvements could be considered, if any

2800 character(s) maximum

We agree that it will do so more broadly but at Schroders we were already following that approach.

VI. Remuneration of fund managers

Click here for the list of definitions, abbreviations and legal references included in the Explanatory Note

Part A: Remuneration of identified staff in funds

39. What is the average investment horizon of the funds managed by your firm?

Please select one investment horizon per category of fund

	Less than 1 year	1-3 years	3-5 years	5-10 years	Over 10 years	Not applicable
Hedge funds	○	○	○	○	○	○
Private equity	○	○	○	●	○	○
Equity	○	○	●	○	○	○
Fixed income	○	○	●	○	○	○
Real estate	○	○	○	●	○	○
Alternative	○	○	○	●	○	○
Other	○	○	●	○	○	○

* Please specify

1400 character(s) maximum

As already mentioned, aggregating holding period figures across a diverse set of products managed for a diverse set of clients is challenging and can be misleading. Hence, there is no one investment horizon. In this context, most of our equity products aim to deliver their investment objective over a market cycle - approximately a period between 3 and 5 years (closer to the latter). Asset classes like private equity, real estate and infrastructure are naturally managed over a longer time horizon that is closer to 10 years and over. This doesn’t mean that the shorter horizon for e.g. public equity translates to short-termistic investment behaviour.

We would also like to stress that the remuneration of fund managers is subject to several regulatory regimes including UCITS that recognise the agency nature of our business and that incentives are aligned with the best interests of our clients. Given our agency model and that the majority of our products look to delivery over a period of at least one market cycle (ca. 5 years) we do not think there are features of fund manager remuneration that contribute to short-termism. There may be perceptions that this happens but no robust evidence to suggest it.

For details on our policies see https://www.schroders.com/en/investor-relations/shareholders-and-governance/disclosures/remuneration-disclosures/

40. In the salaries of identified staff [1] of your firm’s funds, what is the average share of the variable component compared to the fixed component?

[1] Defined in the Guidelines on sound remuneration policies under the UCITS Directive (ESMA/2016/575) and Guidelines on sound remuneration policies under the AIFMD (ESMA/2013/232)

	0-20%	20-30%	30-40%	40-50%	Over 50%	Not applicable
Hedge funds	○	○	○	○	●	○
Private equity	○	○	○	○	●	○
Equity	○	○	○	○	●	○

Fixed income	○	○	○	○	●	○
Real estate	○	○	○	○	●	○
Alternative	○	○	○	○	●	○
Other	○	○	○	○	●	○

* Please specify

1400 character(s) maximum

For the avoidance of doubt, we have assumed that the question is asking for the average variable component as a percentage (%) of total compensation.

41. Over what average time is the reference period for variable remuneration calculated for the identified staff of your firm's funds?

	Less than 1 year	1-4 years	5-8 years	9-12 years	More than 12 years	Not applicable
Hedge funds	○	●	○	○	○	○
Private equity	○	●	○	○	○	○
Equity	○	●	○	○	○	○
Fixed income	○	●	○	○	○	○
Real estate	○	●	○	○	○	○
Alternative	○	●	○	○	○	○
Other	○	●	○	○	○	○

* Please specify

1400 character(s) maximum

The question somewhat oversimplifies policies. A more accurate response is that the investment team's performance is considered over 1, 3 and 5 years.

42. What average percentage of variable remuneration do you defer for identified staff of your firm's funds?

	40-50%	50-60%	60-70%	70-80%	Over 80%	Not Applicable
Hedge funds	○	●	○	○	○	○
Private equity	○	●	○	○	○	○
Equity	○	●	○	○	○	○

Fixed income	○	●	○	○	○	○
Real estate	○	●	○	○	○	○
Alternative	○	●	○	○	○	○
Other	○	○	○	○	○	○

43. On average, over what period do you defer the payment of the variable remuneration for identified staff of your firm's funds?

	3-4 years	5-6 years	7-8 years	9-10 years	More than 10 years	Not applicable
Hedge funds	●	○	○	○	○	○
Private equity	●	○	○	○	○	○
Equity	●	○	○	○	○	○
Fixed income	●	○	○	○	○	○
Real estate	●	○	○	○	○	○
Alternative	●	○	○	○	○	○
Other	○	○	○	○	○	○

44. Do you believe there are common practices in the remuneration of fund managers that contribute to short-termism?

○ Yes
● No

Part B: Remuneration of corporate executives

45. In your firm, what is the average share of the variable component of executive remuneration compared to the fixed component?

○ 0-20%
○ 21-30%
○ 31-40%
○ 41-50%
● Over 50%

46. Over what average time is the reference period calculated for variable remuneration of your firm's executives?

○ Less than 1 year
● 1-4 years
○ 5-8 years

- 8-12 years
- Over 12 years

47. Over what average period is the payment of the variable remuneration of your firm's executives deferred?

- less than 3 years
- (selected) 3-5 years
- 6-7 years
- 8-9 years
- 10 years or more

48. Is the awarding of variable remuneration to your firm's executives linked to any ESG-related objectives?

- (selected) Yes
- No

* Please explain your response and indicate which share of variable remuneration is linked to what ESG-related objectives

2800 character(s) maximum

Annual bonus awards for the executive Directors' of Schroders plc are determined at the discretion of the remuneration committee of the board of Schroders plc. Based on its assessment of performance, the Committee applies its judgement to determined annual bonus awards, without attaching a weighting to each performance factor or setting a value payable for achievement of each target. Targets include ESG areas such as diversity and inclusion, succession planning and the need to drive sustainability at both the firm and industry level.

Many aspects of our remuneration policies for Schroders corporate executives are designed to promote the long-term success of the company. The proportion of executive Directors' bonuses that is deferred is around 60%. Only half of the upfront portion of the bonus is in cash; the other half is granted in the form of a fund award. The deferred element of the bonus is granted half as share awards, vesting after 1, 2 and 3 years, and half as fund awards, vesting after 1.5, 2.5 and 3.5 years. This use of fund and share awards aligns the interests of the executive Directors with those of our clients and shareholders. In addition, the Long Term Incentive Plan sees further deferred share awards granted annually, vesting over 4 years subject to longer-term performance, with a further 1-year holding period. Furthermore, the executive Directors are required, over time, to acquire and retain a significant holding of Schroders shares or rights to shares and, on stepping down, to maintain a level of shareholding for a further two years.

NB: Our responses to Part B altogether are from the perspective of a listed company rather than that of an asset manager, that is, a shareholder of listed companies, which applies to the rest of the survey, including Part A.

49. Do you believe there are common practices in the remuneration of corporate executives that contribute to short-termism?

- Yes
- (selected) No

VII. Use of CDS by investment funds

Click here for the list of definitions, abbreviations and legal references included in the Explanatory Note

50. What percentage of your funds are exposed to CDS?

Please indicate the closest applicable percentage and use 0 to indicate ‘not applicable’

	0%	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
All funds	○	○	○	○	○	○	○	○	○	○	○
UCITS funds	○	○	○	○	○	○	○	○	○	○	○
AIFs	○	○	○	○	○	○	○	○	○	○	○

51. If your funds are exposed to CDS, what are they primarily exposed to?

Please fill in the table with the applicable percentages and use 0 to indicate 'not applicable'

	Single name CDS	Index CDS	Basket CDS	Other
All funds				
UCITS funds				
AIFs				

*In case you reported a non-zero percentage to **Other** in question 51, please specify which kind of CDS you are referring to*

1400 character(s) maximum

52. What kinds of CDS exposures do your funds hold?

Please fill in the table with the applicable percentages and use 0 to indicate 'not applicable'

	Sell only	Net sell	Net buy	Buy only
All funds				
UCITS funds				
AIFs				

53. If any of your funds hold sell only or net sell CDS positions, what is their primary investment strategy?

	Equity	Fixed income	Alternative	Other
All funds	○	○	○	○
UCITS funds	○	○	○	○
AIFs	○	○	○	○

54. What is the average size of your fund’s holding of sell only or net sell CDS exposures, expressed in assets under management (AUM)?

Please select the relevant range for each category

	Below €1 million	€1 million ≤X≥ €10 million	€10 million <X≥ €100 million	€100 million <X≥ €1 billion	Over €1 billion
All funds	○	○	○	○	○
UCITS funds	○	○	○	○	○
AIFs	○	○	○	○	○

55. If you hold sell only or net sell CDS positions in any of your funds, please select in the list below one or several reasons for holding sell only or net sell CDS positions

- [ ] To gain credit exposure to underlying credit name / index / basket
- [ ] To improve returns in fund through collecting CDS premia
- [ ] Other

56. If you hold sell only or net sell CDS positions in any of your funds, do you:

- [ ] Monitor underlying default risk of the CDS reference instrument / index / basket?
- [ ] Believe your positions accentuate tail risk exposure in the funds holding them?
- [ ] Monitor potential tail risk exposure in your funds with sell only or net sell CDS positions?
- [ ] Take into account the leverage in the exposed fund?
- [ ] Other

57. Are there other classes of derivatives used by investment funds that could increase short-termism in the economy?

2800 character(s) maximum

Note on use of CDS

Given the short deadline provided, it has not been possible to collect the requested data on CDS. Furthermore, the link between use of CDS and short-termism remains unclear. The existence of sell only/net sell positions on CDS has no special connection to short-termism, the same way that shorting a stock or buying a put option do not. All may indicate an expectation for a ‘negative’ outcome but they can be essential for risk hedging and contribute to market efficiency. Selling a CDS does not change the fundamental situation any more than buying it does. So we would challenge the assumption that it creates short-termism. The information provided below should be read in this context.

We trade CDS in our funds (the vast majority, if not all, in non-equity funds), which are primarily UCITS funds. We trade both buy and sell protection positions, and mostly on single name CDS, although we do trade indices too. We use them for hedging and investment purposes, and will also use them for pair trades (buy protection on one company in a sector, sell protection on a different company in the same sector). We prefer to use physical bonds, but we do monitor the basis between cash bonds and CDS, and when it is favourable, we will use CDS. The CDS are included in all our risk monitoring (leverage, stress testing etc).

Whether we are a net seller or net buyer would differ from fund to fund, and getting a view across the whole business is challenging and obviously subject to change.

VIII. Final

Click here for the list of definitions, abbreviations and legal references included in the Explanatory Note

58. Do you have any additional input you wish to provide in relation to the topics covered in this survey? Please provide links to any relevant material / publications.

2800 character(s) maximum

Definition of short-termism

We would challenge the definition of short-termism in the explanatory note and the mandate by the European Commission that stress: "… prioritising near-term shareholder interest over long-term growth of the firm". There is literature defining short-termism as a demonstrably suboptimal preference for lower short-term payoffs over higher long-term payoffs. This can occur across all parts of the value chain from investee companies to end-investors, as explored in the Kay Review in 2012. This Review was referred to in the HLEG report so ESMA can draw from this. Our interest as shareholders is to ensure long-term, sustainable company value rather than prioritise any short-term payoff. While at times short and long term performance diverge, we do not believe that there is a necessary trade-off between those two goals.

Blurring of roles

We have approached this exercise as an asset manager, i.e. as a shareholder across hundreds of companies. But we are also a company that is itself subject to capital market forces. Any short-term pressures that may exist on a capital market level would apply. The exception to our approach is VI-Part B, where we have answered as a listed company. However, we do consider the issue of remuneration of corporate executives as an asset manager/shareholder as well, and engage on it frequently to ensure that potential rewards are aligned with shareholder interests over the long-term.

59. Do you consider that any topics beyond those covered in the survey should be addressed in ESMA's advice to the European Commission on potential undue short-term pressures exercised by the financial sector on companies? Please provide links to any relevant material / publications.

2800 character(s) maximum

Connection to CMU

There is an obvious link between the Capital Markets Union agenda and the short-termism debate, which needs to look beyond listed equity. There are many different ways through which companies raise financing, through public and private markets, through equity and debt instruments etc. Undue short-term pressure from one front does not necessarily translate to similar pressures across the spectrum. Moreover, a significant part of what the Sustainable Finance package is trying to achieve may well relate to infrastructure investment, real estate and other asset classes that operate in a very different environment from public equities.

Reassessing the trends

We consider that although it is often repeated that there is short-termism in capital markets, this is increasingly becoming a thing of the past and that it has reversed since the financial crisis. For example, looking at the total activity on NYSE, the average holding period has been on an upward trajectory for the last 10 years.

60. Do you have any other comments or thoughts on the issue of short-termism? Please provide links to any relevant material / publications.

2800 character(s) maximum

Relevant publications:
– Schroders Annual Sustainable Investment Report 2018
https://www.schroders.com/en/sysglobalassets/digital/insights/2019/pdfs/sustainability/schroders-annual-sustainable-investment-report-2018-cs1179.pdf

– Schroders Environmental, Social and Governance Policy for Listed Assets, July 2019
https://www.schroders.com/en/sysglobalassets/global-assets/english/campaign/sustainability/integrity-documents/schroders-esg-policy.pdf

– Schroders Statement for the UK Financial Reporting Council’s Stewardship Code
https://www.schroders.com/en/about-us/corporate-responsibility/sustainability/uk-stewardship-code/

– Investment Association Productivity Action Plan
https://www.theia.org/campaigns/corporate-governance/pap

Contact

short.termism@esma.europa.eu