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August 16, 2022

Submitted electronically via SEC.gov

Vanessa Countryman, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: **File No. S7-17-22**
Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices

Dear Ms. Countryman,

Schroders plc is the parent company of a group that includes a global asset management business headquartered in London. Schroders plc is a listed company and a constituent of the FTSE 100. We manage approximately $939.2 billion in assets (as at June 30, 2022) on behalf of institutions and individual investors, with $97.7 billion of that total in North America. Our investments are spread across a wide range of asset classes, both public and private, and diverse geographies. We opened our office in the United States in 1923 and Schroder Investment Management North America Inc. currently has over 340 employees, and services over 540 clients, in North America.

We welcome the opportunity to comment on this proposal. We are supportive of bringing more clarity and transparency to a part of the market that is growing but where certain practices still remain opaque or poorly defined. This additional clarity is crucial to encouraging market competition and better outcomes for clients.

We also support an approach that focuses on making clear to clients how a product intends to achieve its investment objective rather than one that defines strict categories and labels in a market that is still nascent and where we expect a considerable amount of innovation to take place going forward.

We agree with the Commission's proposal to not seek to prescribe or define ESG or similar terms but rather places the onus on product manufacturers to explain how they are approaching sustainable investment. A non-exhaustive list of examples of what type of high-level approaches would constitute sustainable investment, whereby manufacturers then explain the detail behind their practices, could be helpful guidance.

One aspect of the proposal that causes us concern is the GHG disclosures. We anticipate possible complications around look-through and the treatment of non-US holdings. More importantly, we believe that sustainable funds have a much broader focus than carbon emissions. Even if we put aside consideration of Social and Governance factors, Environmental factors are much more than carbon emissions and can involve investment opportunities around natural capital, circular economy solutions, better waste management, etc. We believe it would be unhelpful if the market develops "carbon tunnel vision" and fails to explore all the different aspects that sustainable investing offers. We would therefore advise against placing too much emphasis on disclosing specific metrics, particularly GHG emissions. Finally, we note that these requirements should be considered in

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the context of the separate rule proposal on climate disclosures for operating companies and the outcome of that proposed rule.

Another broad area of concern is around the Commission's proposed product categories. A tabular format with concrete boxes to tick might not be the most effective way to communicate how a product is approaching sustainable investment. If this approach is ultimately adopted, however, we would like to make the following observations:

- The Commission would need to consider that the tick-box options in the table on page 36 of the proposal are not always mutually exclusive. For example, a product may be excluding issuers that are deemed to be in violation of the United Nations Global Compact Principles (exclusionary screen) and at the same time have an investment focus towards issuers that rank highly compared to their peers based on ESG (inclusionary screen). Or a product may be applying an inclusionary screen and engaging with issuers to further enhance sustainability standards.

- Where a product tracks an index, the sustainability features of that product would be determined by the nature of that index so further disclosures would be required to describe the index.

- Having "other" as an option is helpful because this will allow innovation and not exclude new approaches to sustainable investment simply because they don't fit the pre-existing categories. But exactly because it is not restrictive we would expect most products to choose this and then explain what their approach is using details that can't be easily captured by tick-boxes.

- Related to the previous point, in lieu of tick-boxes, we consider that the table should include a field to outline a brief explanation of the investment approach. This will help clients understand how each product intends to deliver against its investment objective.

- Proxy voting applies to only one asset class (listed equity) and would not be relevant for ESG-focused funds that invest primarily in other asset classes.

- Most importantly, we would advise against including engagement and voting as distinct product categories. Fundamentally, engagement and voting refer to processes rather than products. And, it is not just ESG focused funds that engage. We see engagement and voting as something that is done at a firm rather than product level. It is not the prerogative of ESG-focused funds alone and we would not consider it as an ESG strategy on its own. For these reasons, we would recommend removing these two options from the ESG strategy options list, as well as removing the "how the Fund votes proxies and/or engages with companies about [ESG] issues" as this would be very repetitive across both ESG and non-ESG funds and not add value to clients in terms of choosing between funds.

- Considering that integration is part of how a product could be marketed, we believe that integration funds should have additional disclosures under the strict understanding that this approach is separate and one step before ESG-focus. Brevity of disclosure would be important but we would welcome further guidance on how much disclosure would be considered "brief".

- Impact funds should have additional disclosures that cover the main principles of impact investing such as intentionality and measured impact. As mentioned above, we see engagement as a primarily firm-level activity and would not make it exclusive to ESG-focused or Impact funds. Moreover, we see Impact as a distinct category of funds as these are not defined by an ESG focus but by having a dual objective of returns and measurable impact on environmental and/or social goals.

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A third broad area of concern relates to the proposals on third-party rating disclosures. To the extent that third-party ratings are central to an investment approach, this should then be disclosed. This is particularly important where a third-party marketer or third-party rater was the main determinator of whether an adviser is categorizing their fund as integrated, ESG-focused, or Impact. This must be made clear to investors, as these third-party services are not subject to regulation or broader oversight, which results in a lack of transparency and accountability.

Related to this, we don't think it is prudent to include information on the use of third-party data providers, such as scoring or methodologies. Often such information is subject to (price-sensitive) licensing agreements and we don't believe that information about *which* providers are used is as useful as information on *how* third-party ratings are used – if they are central to the investment approach, that is. We also don't favor disclosures that go into the detail of, for example, how conflicting assessments of companies by different providers are considered. Third party ratings are normally one in a large pool of inputs that feed into the investment decision, and we would not want to see them accorded an undue focus in required disclosures.

Finally, we would make two smaller additional points:

- Although the ESG Strategy Overview table, if adopted, should be easy to find in fund documentation, we do not believe that it should be more prominent or precede more fundamental information around return, risk and costs.
- We do not see the need for additional disclosures for asset types such as green bonds, social bonds and/or sustainability-linked bonds, but products should be clear if they are investing in such instruments and to what extent they adhere to specific standards (such as the ICMA standards).

Once again, Schroders applauds the Commission's efforts to increase transparency and accountability around ESG investing and is grateful for the opportunity to comment on the proposed rule. If you have any questions or would like to discuss anything in this letter further, we welcome the opportunity to engage with you. Please feel free to contact Marina Severinovsky [redacted]

Yours sincerely,

Marina Severinovsky
Head of Sustainability, North America