ESG Policy - Schroder ISF Healthcare Innovation ("The Fund")

A. Statement of Purpose

The fund aims to provide capital growth by investing in equities of healthcare and medical related companies worldwide which the investment manager deems to be sustainable investments. The fund has the objective of sustainable investment within the meaning of Article 9 of Regulation (EU) 2019/2088 on Sustainability-related Disclosures in the Financial Services Sector (the "SFDR").

The Investment Manager applies sustainability criteria when selecting investments for the Fund.

The Investment Manager selects companies that are engaged in healthcare provision, medical services and related products, including in areas such as biotechnology, generics drug manufacture and supply, pharmaceuticals, health insurance and hospital supplies. Investment ideas are identified using proprietary fundamental stock analysis and top down assessment of the thematic drivers affecting healthcare demand and provision.

The Investment Manager's analysis seeks to identify companies that are well placed to develop products or services that address both the rising demand for healthcare and the need to ensure that healthcare systems are more efficiently managed to ease rising cost pressures.

The Investment Manager also uses a proprietary tool (CONTEXT) to assess the ESG performance of companies before they are selected for the Fund's portfolio. Individual names with poor ESG performance may be included in the portfolio if the Investment Manager believes that a company is on track to improve its ESG performance.

Other sources of information are also used for this analysis including information provided by the companies, such as company sustainability reports and other relevant company material, as well as Schroders' other proprietary tools and third-party data. As a result of the application of sustainability criteria, at least 20% of the Fund's potential investment universe is excluded from the selection of investments.

B. Proprietary Tools

1. SustainEx

SustainEx™ is a proprietary model which scientifically combines measures of both the harm companies can do and the good they can bring to arrive at an aggregate measure of each firm's social and environmental impact, allowing investors to target their ESG investments effectively. It quantifies the extent to which companies are in credit or deficit with the societies to which they belong, and the risks they face if the costs they externalise are pushed into companies' own costs.

2. CONTEXT

Our flagship ESG research tool, provides a systematic framework for analysing a company's relationship with its stakeholders and the sustainability of its business model. Comprising over 260 metrics across over 13,000 companies, it is designed to support our investors' understanding of the sustainability of companies' business models and profitability, and provides structured, logical and wide-ranging data to support our analysts' views. This consistent structure makes information sharing easier and allows us to identify market wide trends and insights.

The tool is interactive and highly customisable, enabling analysts to select the most material ESG factors for each sector, weight their importance and apply relevant metrics. Analysts are then able to compare companies based on the metrics selected, their own company assessment scores or adjusted rankings (size, sector or region), with the flexibility to make company specific adjustments to reflect their detailed knowledge. The tool is fully integrated within Schroders' global research platform, which is readily accessible across investment desks and geographies.

We have also developed a number of proprietary quantitative metrics that can be used to demonstrate and measure a portfolio's sustainability characteristics.

C. ESG Strategies

1. ESG Integration

The fund invests in companies which demonstrate strong sustainability characteristics in aggregate. For this fund our assessment of sustainability characteristics are aligned to companies' stakeholder relationships (governments, suppliers, regulators, customers etc.). Given the focus of the fund, the critical sustainability risks we look for relate to product safety (which extends to development, manufacture and marketing); supply chain integrity and management; product efficacy and pricing; health and safety; company ethics; R&D spend; and previous controversies. These factors are considered material to the growth profile of businesses exposed to the theme, and any diminution of a company's performance in these areas likely to represent a risk.

ESG is fully integrated into analysis, stock selection and portfolio construction. The fund uses a proprietary screening tool CONTEXT to exclude companies ranked on ESG performance in the bottom quartile of the fund's investable universe. Individual names identified by this screen may be included by exception, if the Investment Manager believes that the company is on track to improve its ESG performance. Any such exception is clearly documented with an appropriate narrative justifying inclusion. A proprietary screening tool, SustainEx, is then used in order to select companies with a positive sustainability score.

While it is not necessary for every investment selected to exhibit a positive score, the Manager seeks to ensure that in aggregate, the portfolio demonstrates a positive score both in absolute terms and relative to the fund's sustainability benchmark, MSCI ACWI. Any investment being considered for the portfolio with a negative score will be appraised in light of the Investment Manager's analysis of the company's overall ESG performance and stated sustainability policy and objectives.

2. Normative Screening

We recognise the importance of companies respecting and protecting human rights, ensuring decent working conditions and upholding labour rights, promoting greater environmental responsibility and having robust anti-corruption measures and practices in place. Through our ESG integration and active ownership process we take into consideration how companies are interacting with all their stakeholders (customers, suppliers, environment, regulators, employees and communities) and the contribution this might have (both negative and positive) to their long-term success. We consider the UNGC principles within this framework, in addition to a broader range of issues. That analysis also informs our engagement with companies; where we consider companies' business practices may be unsustainable we regularly engagement management teams to better understand their plans, and to promote more responsible behaviour.

The Fund will not knowingly invest in companies not meeting these minimum norms.

3. Exclusion

a. Tobacco

The World Health Organisation has estimated that tobacco use (smoking and smokeless) is currently responsible for the death of about seven million people across the world each year, with more than 10% of deaths due to the effects of second-hand smoke.

By nature of the Fund's thematic focus on healthcare provision, medical services and related products, the Fund excludes any companies involved in the production or wholesale trading of tobacco products or providing dedicated equipment or services.

b. Weapons

We fully support the international convention on Cluster Munitions and Anti-Personnel Mines:

- The Convention on Cluster Munitions (2008): prohibits the production, stockpiling, transfer and use of cluster munitions
- The Anti-Personnel Landmines Treaty (1997), also known as The Ottawa Treaty (1997): prohibits the production, stockpiling, transfer and use of anti-personnel landmines

We will not knowingly hold any security that will derive revenue from these sources.

By nature of the Fund's thematic focus on healthcare provision, medical services and related products, the Fund excludes any companies involved in weapons activities (nuclear, Biological or Chemical weapons, anti-personnel mines, submunitions, depleted or industrial uranium, white phosphorous other (civilian) weapons or components hereof).

c. Coal

Coal producers will bear the brunt of decarbonisation's impact. Coal is the most carbon intensive fossil fuel, generating twice as much carbon as gas to produce the same amount of energy.

By nature of the Fund's thematic focus on healthcare provision, medical services and related products, the Fund excludes any companies involved in coal activities.

d. Unconventional oil and gas

Unconventional oil and gas, such as tar sands, oil shale and shale gas, Arctic onshore and offshore, require more energy-intensive production methods compared to conventional oil and gas. There are also health and environmental impacts through air, water, land and soil pollution.

By nature of the Fund's thematic focus on healthcare provision, medical services and related products, the Fund excludes any companies involved in unconventional oil and gas.

e. Conventional oil and gas

While conventional oil and gas are less carbon intensive than coal, they are major contributors to global greenhouse gas emissions and their use will have to fall significantly in the future.

By nature of the Fund's thematic focus on healthcare provision, medical services and related products, the Fund excludes any companies involved in conventional oil and gas.

f. Power Generation

By nature of the Fund's thematic focus on healthcare provision, medical services and related products, the Fund excludes any companies involved in electricity generation activities.

4. Engagement

Dialogue between investors and companies is key. With engagement, the aim is to focus on positively influencing corporate behaviour, which will lead to improved performance on the topics of the engagement and on the long-term sustainable returns.

One of the engagements that we have is regarding the exclusion of companies active in the fossil fuel sector. In addition, corporate engagement and shareholder action is important for our company, so this is also an element that we take into consideration when building our portfolio.

Schroders has a large stewardship voting on engagement on behalf of the firm. Quarterly updates, as well as a yearly, reports are being published. More information can found on the following page:

https://publications.schroders.com/view/871029973/24/

In addition the team engages directly during its meetings with management in the course of analysing investee companies.

5. Sustainable themed investing

The fund adopts a thematic approach aligned to health and wellbeing with a focus on three primary aspects; demographics and the implication for healthcare provision and services; cost and the increased cost burden placed on healthcare systems; innovations in medicine and technologies used to address major illness and disease and improve health and wellbeing.

We do not employee a quantitative screen to maintain an investible universe. However, the development of Schroders' proprietary tool, ThemEx, which is in the latter stages of development will potentially offer the scope to utilise an investible universe built using a systematic process. ThemEx will map companies to a range of themes, notably but not exclusively those relating to UN SDG's and EU Taxonomy, based on revenues, Currently however, the manager assesses the materiality of the theme to a company from a bottom up perspective and as such there is no systematically defined universe

SFDR classification:

The Fund invests at least 75% of its assets in sustainable investments, which are investments in companies that contribute towards the advancement of one or more of the UN SDGs by promoting growth in healthcare provision and medical treatments and improving healthcare standards using an innovation-led approach.

The Schroder ISF Healthcare Innovation Fund has the objective of sustainable investment (within the meaning of Article 9 SFDR) and is classified as an Article 9 under the SFDR regulation.

6. Portfolio tilting: over / underweighting

Position sizes are determined by the manager's expectations for risk adjusted returns. Proprietary ESG 'scores' are used as an input into our growth expectations and risk assessment for a stock and therefore directly contribute to position sizing

The Fund is managed as an unconstrained strategy therefore active positions are a secondary consideration in the weight accorded to any particular stock. Absolute weight is a much more relevant consideration, with stocks typically sitting in a range zero to 5%

7. Beating a benchmark

The Fund seeks to demonstrate both positive financial and non-financial performance relative to the reference benchmark.

Given the breadth of the theme, which extends beyond the traditional healthcare sector, the primary benchmark of MSCI ACW Index has been selected to benchmark both financial performance and sustainability (ESG) performance. The Fund's Sustainability and ESG performance is monitored and measured using our proprietary tool Sustainex. The performance target is to maintain a SustainEx score better than the reference benchmark. In addition, we would expect to see persistently high third party ESG scores for the fund from MSCI and Refinitiv most notably.

D. Embedded Policies

Biodiversity

Biodiversity – the variety of plants and animals, and where they live – is critical for our everyday lives. It provides us with food, water, clean air, shelter and medicines. Loss of biodiversity and changes to ecosystems can increase the risk of infectious diseases in animals, plants and humans.

We recognise that deforestations, changes in land use, increasing agricultural intensity, over-population, climate change and pollution contribute to biodiversity loss and we therefore take these factors into consideration in our ESG analysis of companies and engage with companies where we believe their practices are unsustainable.

Water use

Water is critical to human and ecosystem health, necessary in many industrial processes, indispensable in food and energy production, an important vehicle for disposing of wastes, and integral to many forms of recreation. While ~70% of the earth's surface is covered in water, less than 1% of this is water available for consumption by people and business, and the supply of clean, fresh water is decreasing. At the same time, there is an increasing demand for water through agriculture, a growing global population and economic development. Supply side and demand side pressure means that water is increasingly becoming a material risk for companies that are struggling to source scarce, clean water. Understanding and managing water risk may be fundamental to a company's ability to continue as a going concern.

As a result, the water intensity of companies' operations, scarcity in the regions in which they operate and their strategies to manage their use all feature in our ESG analysis of companies. We also engage companies with direct or indirect exposure.

Taxation

Taxes are probably the clearest form of companies' social contribution. They are reinvested by the state into society, providing vital public services. We believe it is important that companies behave responsibly and conduct their tax affairs in an open and transparent way. Responsible tax payment is reflected in the tools available to our analysts when examining ESG performances and is regularly included in our engagement with companies.

Oppressive regimes

Oppressive regimes are commonly associated with systematic human rights abuses, and often an absence of the rule of law, a lack of freedom of expression and land rights abuses. Through our ESG integration and active ownership process we seek to understand whether companies operate or have supply chains in countries governed by oppressive regimes.

We comply with the sanctions regimes issued by the EU, the UN, Her Majesty's Treasury (HMT), and the Office of Foreign Asset Control (OFAC) in the United States.

Cannabis

The Single Convention and the Psychotropic Convention have been implemented in the UK through the Misuse of Drugs Act 1971 ("MDA") and the Misuse of Drugs Regulations 2001 ("MDR") – making it a criminal offense to invest in companies that produce, distribute and sell cannabis in the form of THC. Investments in companies with exposure to the industry but for medicinal purposes only are still permitted. Please note this a regulatory requirement and not part of the ESG framework.

Pollution & waste (e.g. plastics)

While the Fund does not have a specific policy on pollution & waste, the Context score takes this into account when scoring the E (Environment) dimension.

Gender & diversity

While the Fund does not have a specific policy on gender & diversity, the Context score takes this into account when scoring the S (Social) and G (Governance) dimensions.

Death penalty

The Fund does not have a specific policy on death penalty

Forward contracts on agricultural commodities

The Fund does not invest in any agricultural commodities

RISK CONSIDERATIONS

Liquidity risk: In difficult market conditions, the fund may not be able to sell a security for full value or at all. This could affect performance and could cause the fund to defer or suspend redemptions of its shares.
Operational risk: Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the fund.
Currency risk: The fund may lose value as a result of movements in foreign exchange rates.
Derivatives risk – Efficient Portfolio Management: Derivatives may be used to manage the portfolio efficiently. A derivative may not perform as expected, may create losses greater than the cost of the derivative and may result in losses to the fund.
Emerging Markets & Frontier risk: Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets.
Counterparty risk: The fund may have contractual agreements with counterparties. If a counterparty is unable to fulfil their obligations, the sum that they owe to the fund may be lost in part or in whole.
Performance risk: Investment objectives express an intended result but there is no guarantee that such a result will be achieved. Depending on market conditions and the macro economic environment, investment objectives may become more difficult to achieve.
IBOR: The transition of the financial markets away from the use of interbank offered rates (IBORs) to alternative reference rates may impact the valuation of certain holdings and disrupt liquidity in certain instruments. This may impact the investment performance of the fund.

Sustainable Investing risk: The fund applies sustainability criteria in its selection of investments. This investment focus may limit the fund's exposure to companies, industries or sectors and the fund may forego investment opportunities that do not align with its sustainability criteria. The fund may underperform other funds that do not seek to invest based on such criteria. As investors may differ in their views of what constitutes sustainability, the fund may invest in companies that do not reflect the values of any particular investor.

STANDARD DISCLAIMER

Past performance is not a reliable indicator of future results, prices of shares and the income from them may fall as well as rise and investors may not get the amount originally invested.

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The fund has the objective of sustainable investment within the meaning of Article 9 of Regulation (EU) 2019/2088 on Sustainability-related Disclosures in the Financial Services Sector (the "SFDR").

Risk considerations:

The fund may be concentrated in a limited number of geographical regions, industry sectors, markets and/or individual positions. This may result in large changes in the value of the fund, both up or down. Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the fund. The fund may have contractual agreements with counterparties. If a counterparty is unable to fulfil their obligations, the sum that they owe to the fund may be lost in part or in whole. The fund may lose value as a result of movements in foreign exchange rates. Derivatives may be used to manage the portfolio efficiently. A derivative may not perform as expected, may create losses greater than the cost of the derivative and may result in losses to the fund. The transition of the financial markets away from the use of interbank offered rates (IBORs) to alternative reference rates may impact the valuation of certain holdings and disrupt liquidity in certain instruments. This may impact the investment performance of the fund. Investment objectives express an intended result but there is no guarantee that such a result will be achieved. Depending on market conditions and the macro economic environment, investment objectives may become more difficult to achieve. In difficult market conditions, the fund may not be able to sell a security for full value or at all. This could affect performance and could cause the fund to defer or suspend redemptions of its shares.

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