Schroders

Schroder International Selection Fund – Carbon Neutral Credit

Summary

The Fund's sustainable investment objective is to aim to achieve aggregate carbon neutrality by the year 2025 within its investment portfolio by investing at least 80% of its assets in fixed and floating rate securities issued by governments, government agencies, supra-nationals and companies worldwide which contribute towards the objective of carbon emission reduction by aiming for, and being on track to achieve, 80% emission reductions by 2030. The Fund may also invest in investments that the Investment Manager deems to be neutral under its sustainability criteria, such as cash and Money Market Investments and derivatives used with the aim of reducing risk (hedging) or managing the Fund more efficiently. The Fund will aim to offset residual portfolio emissions with avoided emissions, in order for the portfolio to achieve net zero emissions by 2025.

Aggregate carbon neutrality means achieving net zero carbon emissions intensity by balancing investments in (i) issuers that generate carbon emissions, but that have stated goals to reduce such emissions with (ii) issuers that contribute to reducing carbon emissions.

No reference benchmark has been designated for the purpose of attaining the sustainable investment objective.

The Fund may invest in companies that the Investment Manager believes will improve their sustainability practices within a reasonable timeframe, typically up to two years. The minimum proportion of 80% applies in normal market conditions. The actual proportion is expected to be higher. The Fund may also invest in investments that the Investment Manager deems to be neutral under its sustainability criteria. Not sustainable includes investments that are treated as neutral for sustainability purposes, such as cash and Money Market Investments and derivatives used with the aim of reducing risk (hedging) or managing the Fund more efficiently. Please refer to the chart under the Proportion of investments section.

The Fund does not directly invest in certain activities, industries or groups of issuers above the limits listed under the "Monitoring of the sustainable investment objective" section.

The Fund invests in companies that do not cause significant environmental or social harm and have good governance practices, as determined by the Investment Manager's rating criteria.

The Investment Manager's approach to investing in issuers that do not cause significant harm to any environmental or social sustainable investment objective includes the following:

Firm-wide exclusions apply to Schroders funds. These relate to international conventions on cluster munitions, anti-personnel mines, and chemical and biological weapons. A detailed list of all companies that are excluded is available at https://www.schroders.com/en/sustainability/active-ownership/group-exclusions/.

The Investment Manager draws information on investee companies from publicly available corporate information and company meetings, from broker reports, industry bodies, and research organisations, think tanks, legislators, consultants, Non-Governmental Organisations and academics. Third party research may be used, however our analysts form a proprietary view on each of the companies we analyse. The Investment Manager subscribes to external ESG research providers including; MSCI ESG research, Bloomberg, Refinitiv, Sustainalytics and Morningstar, which is subject to periodic review and change.

The limitations mainly arise from data errors, data availability and data estimation as detailed in the section titled “Data sources and processing”.

Where data is not available, Schroders will engage with companies to encourage them to disclose the missing data points.

Some of our proprietary tools infer missing values where applicable. Our models typically employ a range of techniques to estimate missing values where appropriate and reasonably robust.

Where data for a metric is not sufficiently available to form robust conclusions, that metric is not included in the proprietary tools.

The Investment Manager ensures that at least 90% of companies in the Fund’s portfolio are rated against the sustainability criteria. 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.

The Fund’s investment and asset selection process has been reviewed and approved by the investment manager’s Product Development Committee that includes representatives from the Legal, Compliance, Product and Sustainable Investment functions. Ongoing compliance with the agreed sustainability characteristics is monitored by the Portfolio Compliance Team. There are no external controls on that due diligence.

The Investment Manager is responsible for determining whether an investment meets the criteria of a sustainable investment. The Investment Manager uses specific sustainability key performance indicators to assess the investment’s contribution to an environmental or social objective (as applicable). The output of the Investment Strategy outlined below is the production of the list of investments that meet the selection criteria, this represents the investment universe. Compliance with this is monitored daily via our automated compliance controls. The Fund also applies certain exclusions, with which the Investment Manager monitors compliance on an ongoing basis via its portfolio compliance framework.

The coding and monitoring of investment risk restrictions for individual fund and client mandates is the responsibility of the Investment Manager’s Portfolio Compliance team within the independent Investment Risk function.

The data in the portfolio compliance framework forms the basis for monitoring of risk limits and indicators, and the latest information on portfolio structure (such as asset allocation, sector and country positions) and risk metrics is easily available to our investment risk, portfolio compliance and investment teams.

We consider active ownership to be the influence we can apply to management teams to ensure sustainable practices in the assets in which we invest. We aim to drive change that will protect and enhance the value of our investments and we are committed to leveraging the weight of our firm to change how a company is operating for the better. We believe this is an important aspect of our role as stewards of our clients’ capital and how we help clients meet their long-term financial goals in line with our fiduciary responsibilities.

Further details on our approach to active ownership policy is publicly available: https://mybrand.schroders.com/m/3222ea4ed44a1f2c/original/schroders-engagement-blueprint.pdf.

No significant harm to the sustainable investment objective

The Investment Manager’s approach to investing in issuers that do not cause significant harm to any environmental or social sustainable investment objective includes the following:

- Firm-wide exclusions apply to Schroders funds. These relate to international conventions on cluster munitions, anti-personnel mines, and chemical and biological weapons. A detailed list of all companies that are excluded is available at https://www.schroders.com/en/sustainability/active-ownership/group-exclusions/. Firm-wide exclusions also apply to companies generating more than 20% of their revenue from thermal coal mining.

Source: Schroders, as at June 2024. Screening data is provided by a third party unless otherwise specified.
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Value chain refers to the related business activities that are considered these include suppliers, distributors, retailers and producers.
Any tie includes companies with an industry tie to the excluded activity.

- The Fund excludes companies that derive revenues above certain thresholds from activities related to tobacco and thermal coal.
- The Fund excludes companies that are assessed by Schroders to have breached one or more 'global norms' thereby causing significant environmental or social harm; these companies comprise Schroders' 'global norms' breach list. Schroders' determination of whether a company has been involved in such a breach considers relevant principles such as those contained in the UN Global Compact (UNGC) principles, the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights. The 'global norms' breach list may be informed by assessments performed by third party providers and by proprietary research, where relevant to a particular situation.
- The Fund may also apply certain other exclusions in addition to those summarised above.

The Fund may also apply certain other exclusions. Further information on all of the Fund's exclusions is to be found further below in the "Monitoring of the sustainable investment objective" section.

Sustainable investment objective of the financial product

The Fund's sustainable investment objective is to aim to achieve aggregate carbon neutrality by the year 2025 within its investment portfolio by investing its assets in fixed and floating rate securities issued by governments, government agencies, supra-nationals and companies worldwide that in the Investment Manager's view will contribute towards the objective of carbon emission reduction by one or a combination of the following: (i) being carbon neutral; (ii) aiming for, and being on track to achieve, 80% emission reductions or equivalent by 2030; (iii) otherwise demonstrating a contribution to the reduction of carbon emissions (and companies within (iii) may include those that provide products or services which enable decarbonisation). The Fund may also invest in investments that the Investment Manager deems to be neutral under its sustainability criteria, such as cash and Money Market Investments and derivatives used with the aim of reducing risk (hedging) or managing the Fund more efficiently. Aggregate carbon neutrality means achieving net zero carbon emissions intensity by balancing investments in (i) issuers that generate carbon emissions, but that have stated goals to reduce such emissions with (ii) issuers that contribute to reducing carbon emissions.

The Fund's objective includes a reduction in carbon emissions, which means that it aims for low carbon emissions, consistent with the long-term objectives of the Paris Agreement on limiting global warming. The Investment Manager seeks to ensure continued reduction in carbon emissions by investing in issuers with set targets to reduce carbon emissions and issuers that contribute to reducing carbon emissions.

The Investment Manager periodically assesses whether an issuer still publicly commits to the emissions reduction targets through which it earlier qualified for investment by the Fund and seeks to identify cases where targets were retracted. The Investment Manager also seeks to identify situations where an issuer's emissions reduction targets did not keep pace with the emissions reduction trajectory for that sector and reviews any major changes in the emissions profile of an issuer, for example due to mergers or acquisitions. These considerations may lead to divestment by the Investment Manager.

No reference benchmark has been designated for the purpose of attaining the sustainable investment objective.

At the date of this Prospectus, it is not yet possible to commit to the Fund maintaining a minimum alignment with the Taxonomy, as the Investment Manager is currently not in a position to accurately determine to what extent the Fund's investments are in taxonomy-aligned environmentally sustainable activities. Taxonomy alignment of this Fund's investments has therefore not been calculated and has as a result been deemed to constitute 0% of the Fund's portfolio. However it is expected that the Fund invests in companies and economic activities that contribute to the environmental objectives of climate change mitigation and climate change adaptation within the meaning of the Taxonomy.

In future it is therefore expected that the Fund will assess and report on the extent to which its underlying investments are in economic activities that qualify as environmentally sustainable under the Taxonomy, along with information relating to the proportion of enabling and transitional activities. This Prospectus will be

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updated once it is possible in the Investment Manager's opinion to accurately disclose to what extent the Fund's investments are in Taxonomy-aligned environmentally sustainable activities, including the proportions of investments in enabling and transitional activities selected for the Fund.

Investment strategy

The sustainable investment strategy used by the Investment Manager is as follows:

The Fund is actively managed and invests its assets in (a) sustainable investments which are investments that in the Investment Manager's view will contribute towards the objective of carbon emission reduction by one or a combination of the following: (i) being carbon neutral; (ii) aiming for, and being on track to achieve, 80% emission reductions by or equivalent 2030; (iii) otherwise demonstrating a contribution to the reduction of carbon emissions; and (b) investments that the Investment Manager deems to be neutral under its sustainability criteria such as cash and Money Market Investments and derivatives used with the aim of reducing risk (hedging) or managing the Fund more efficiently.

The Fund may also apply certain other exclusions. Further information on all of the Fund's exclusions is to be found further below in the "Monitoring of the sustainable investment objective" section.

The Fund may invest in companies that the Investment Manager believes will improve their sustainability practices within a reasonable timeframe, typically up to two years.

The Fund invests in companies that do not cause significant environmental or social harm and have good governance practices, as determined by the Investment Manager's rating criteria.

In order to assess good governance practices, a central Good Governance Test is applied. This test is based on a data-driven quantitative framework, which uses a scorecard to assess companies across the categories of sound management structures, employee relations, remuneration of staff, and tax compliance. Schroders has defined a number of criteria across these pillars. Compliance with the test is monitored centrally and companies which do not pass this test cannot be held by the Fund, unless the Investment Manager has agreed that the issuer demonstrates good governance based on additional insights beyond that quantitative analysis.

The Investment Manager may also engage with companies held by the Fund or from the investible universe to gain insights or request improvement on sustainability issues. More details on the Investment Manager's approach to sustainability and its engagement with companies are available on the webpage: https://www.schroders.com/en-lu/lu/individual/what-we-do/sustainable-investing/our-sustainable-investment-policies-disclosures-voting-reports/disclosures-and-statements/.

The Fund invests at least two-thirds of its assets in fixed and floating rate securities issued by governments, government agencies, supra-nationals and companies worldwide, including emerging market countries.

The Fund may invest:

- up to 60% of its assets in securities that have a below investment grade credit rating (as measured by Standard & Poor's or any equivalent grade of other credit rating agencies for rated bonds and implied Schroders ratings for non-rated bonds);
- up to 30% of its assets in convertible bonds including up to 10% of its assets in contingent convertible bonds; and
- up to 20% of its assets in asset-backed securities and mortgage-backed securities.

The Investment Manager believes that over the long term, companies that manage the risks and invest in the opportunities arising from climate change better than peers will not only experience fewer penalties, but capture financial and non-financial rewards by various stakeholders.

The Fund may also invest up to one-third of its assets directly or indirectly in other securities (including other asset classes), countries, regions, industries or currencies, warrants and Money Market Investments, and hold cash.

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Any tie includes companies with an industry tie to the excluded activity.

The Fund may use derivatives with the aim of achieving investment gains, reducing risk or managing the Fund more efficiently.

The Fund's objective includes a reduction in carbon emissions, which means that it aims for low carbon emissions, consistent with the long-term objectives of the Paris Agreement on limiting global warming.

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

Issuers are assessed using a methodology that identifies companies that have set targets for, and are on course to reduce carbon emissions intensity by at least 80% by 2030. To complement this, the Investment Manager also targets companies that provide carbon savings, or 'avoided emissions'. These are companies that provide products or services which will contribute to reducing the higher emission activities of other companies which use those products or services.

This methodology is data-driven, sourced from established environmental initiatives and data sources such as the CDP and the Science Based Targets initiative (SBTi), MSCI and other credible external and proprietary data sources.

The Investment Manager then screens the resulting universe for issuers it deems to have harmful and controversial practices defined by a specific list of exclusion criteria. The Investment Manager also conducts its own due diligence to identify issuers do no significant harm to environmental or social objectives. Schroders' proprietary sustainability tools and external sustainability ratings are utilised to identify issuers with good governance.

The Investment Manager may also engage with companies to encourage carbon emission intensity reduction. This identifies new investment opportunities, and monitors whether a company's carbon intensity reduction plan is progressing.

Due to the nature of its investments, and in particular the need for currency hedging, the Fund may also hold a portion of investments that the Investment Manager deems to be neutral under its sustainability criteria. These may include (but are not limited to) derivatives for hedging purposes, cash and Money Market Investments.

The Investment Manager ensures that at least 90% of the portion of the Fund's Net Asset Value composed of investments in companies is rated against the sustainability criteria. 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. For the purposes of this test, the potential investment universe is the core universe of issuers that the Investment Manager may select for the Fund prior to the application of sustainability criteria, in accordance with the other limitations of the Investment Objective and Policy. This universe is comprised of fixed and floating rate securities denominated in various currencies and issued by companies worldwide, including emerging market countries. The universe (for the purpose of this test only) does not include fixed or floating rate securities issued by public or quasi-public issuers.

The investment strategy guides investment decisions based on factors such as investment objectives and risk tolerance.

Proportion of investments

The planned composition of the Fund's investments that are used to meet its sustainable investment objective are summarised below.

The Fund invests at least 80% of its assets in sustainable investments, which means included in **#1 Sustainable** are investments in fixed and floating rate securities issued by governments, government agencies, supra-nationals and companies worldwide which contribute towards the objective of carbon emission reduction by aiming for, and being on track to achieve, 80% emission reductions by 2030. The minimum proportion stated applies in normal market conditions.

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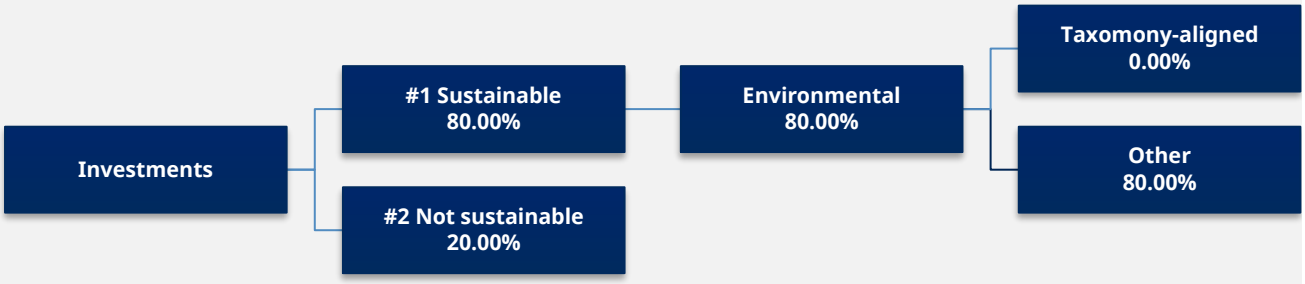
Maximum percentage of revenue refers to highest acceptable revenue figure for that business activity.
Value chain refers to the related business activities that are considered these include suppliers, distributors, retailers and producers.
Any tie includes companies with an industry tie to the excluded activity.

#2 Not sustainable includes investments that are treated as neutral for sustainability purposes, such as cash and Money Market Investments and derivatives used with the aim of reducing risk (hedging) or managing the Fund more efficiently.



#1 Sustainable covers sustainable investments with environmental or social objectives.
#2 Not sustainable includes investments which do not qualify as sustainable investments.

Minimum safeguards are applied where relevant to Money Market Investments and derivatives used with the aim of reducing risk (hedging) by restricting (as appropriate) investments in counterparties where there are ownership links or exposure to higher risk countries (for the purpose of money laundering, terrorist financing, bribery, corruption, tax evasion and sanctions risks). A firm-wide risk assessment considers the risk rating of each jurisdiction; which includes reference to a number of public statements, indices and world governance indicators issued by the UN, the European Union, the UK Government, the Financial Action Task Force and several Non-Government Organisations (NGOs), such as Transparency International and the Basel Committee.

In addition, new counterparties are reviewed by Schroders' credit risk team and approval of a new counterparty is based on a holistic review of the various sources of information available, including, but not limited to, quality of management, ownership structure, location, regulatory and social environment to which each counterparty is subject, and the degree of development of the local banking system and its regulatory framework. Ongoing monitoring is performed through a Schroders' proprietary tool, which supports the analysis of a counterparty's management of environmental, social and governance trends and challenges. Any significant deterioration in the profile of the counterparty in Schroders' proprietary tool would lead to further analysis and potential exclusion by Schroders' credit risk team.

Monitoring of the sustainable investment objective

The exclusion of certain activities, industries or groups of issuers listed below, as well as the investment limits applicable to the Fund, will be measured within the Investment Manager's portfolio compliance framework. Exclusions and limits are coded into this framework to seek to ensure that pre-trade compliance correctly flags the securities that should not enter the portfolio. Securities excluded based on revenue thresholds are evaluated quarterly by the Sustainable Investment team using MSCI's revenue data.

The coding and monitoring of investment risk restrictions for individual fund and client mandates is the responsibility of the Investment Manager's Portfolio Compliance team within the independent Investment Risk function.

The data in the portfolio compliance framework forms the basis for monitoring of risk limits and indicators, and the latest information on portfolio structure (such as asset allocation, sector and country positions) and risk metrics is easily available. Users are able to build customised reports to focus on specific aspects of the portfolio.

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Exclusion Criteria

Environmental exclusions

Excluded Activity	Criteria
Thermal Coal Mining Maximum Percentage of Revenue	5%
Oil and Gas Extraction and Production Maximum Percentage of Revenue	5%
Unconventional Oil and Gas Maximum Percentage of Revenue	5%
Oil Sands Extraction Maximum Percentage of Revenue	5%
Shale Hydraulic Fracking Maximum Percentage of Revenue	5%
Thermal Coal Power Generation Maximum Percentage of Revenue	5%
Liquid Fuel (Oil) Power Generation Maximum Percentage of Revenue	5%
Natural Gas Power Generation Maximum Percentage of Revenue	5%
Nuclear Power Uranium Mining Maximum Percentage of Revenue	5%
Nuclear Power Generation Maximum Percentage of Revenue	5%
Nuclear Power Utility Maximum Percentage of Revenue	5%
Nuclear Power Component Supplier Maximum Percentage of Revenue	5%
Issuer on the Carbon Underground 200	Full list

Social exclusions

Excluded Activity	Criteria
Tobacco Production Maximum Percentage of Revenue	25%
Nuclear Weapons Maximum Percentage of Revenue	0%
Gambling Maximum Percentage of Revenue	5%
Adult Entertainment Maximum Percentage of Revenue	5%
Weapons and Civilian Firearms Combined Maximum Percentage of Revenue	5%
Any Tie to Controversial Weapons	Any tie

Investments in use-of-proceed bonds from excluded issuers may be permitted, providing that the alignment of the framework with the standards accepted by the FNG label has been attested to by a second party opinion or internal analyses. These bonds must also have been issued by a company on the fund's positive inclusion list.

Bespoke Schroders exclusions

Excluded Activity	Criteria
Schroders Controversial Weapons Curated List[1]	All
Schroders' 'Global Norms' Breach List	All

[1]Schroders controversial weapons screening covers cluster munitions, anti-personnel mines, and chemical and biological weapons. Full details of the criteria and company names are available via the following link: https://www.schroders.com/en/sustainability/active-ownership/group-exclusions/

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Controversy/misconduct exclusions

Excluded Activity	Criteria
Companies Flagged for Severe Business Ethics Failures (Bribery and Fraud)	Red
Companies Flagged for Violating the UN's Guiding Principles of Business and Human Rights	Fail
Companies Flagged for Violating the International Labour Organisation's Broad Labour Standards	Fail
Companies Flagged for Violating the International Labour Organisation's Core Labour Standards	Fail
Company Controversy Summary - Overall Flag	Red
Company Controversy Indicator	Scores 1 AND Partially Concluded AND Very Severe
Environment Controversy Flag	Red
Companies Flagged for Violating the UN's Global Compact Principles	Fail

Country/territory exclusions

Excluded Activity
'Not free' classified countries according to Freedom House
Countries that are not legally bound to the Paris Agreement
Countries that have a lower score than 35 on the current Corruption Perception Index by Transparency International.
Countries that are not legally bound to the UN Convention on Biological Diversity
Countries that are not legally bound to the Nuclear Non-Proliferation Treaty

Methodologies

The Investment Manager is responsible for determining whether an investment meets the criteria of a sustainable investment. The Investment Manager uses specific sustainability key performance indicators to assess the investment's contribution to an environmental or social objective (as applicable). The output of the Investment Strategy outlined below is the production of the list of investments that meet the selection criteria, this represents the investment universe. Compliance with the minimum percentage in sustainable investments is monitored daily via our automated compliance controls. The Fund also applies certain exclusions, with which the Investment Manager monitors compliance on an ongoing basis via its portfolio compliance framework.

The Investment Manager uses different sustainability indicators to measure the impact contribution at an investee company level. Examples of the indicators include, but are not limited to, achieved carbon emission reductions (Scope 1 and Scope 2), decarbonization plans, and avoided emissions per company achieved through climate solutions initiatives.

Data sources and processing

In order to assess and understand the potential impact of sustainability risks and opportunities, Schroders has developed a range of proprietary tools. These tools rely on data that is available at the level of the underlying investment holdings.

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Any tie includes companies with an industry tie to the excluded activity.

The Investment Manager draws information on investee companies from publicly available corporate information and company meetings, from broker reports, industry bodies, and research organisations, think tanks, legislators, consultants, Non-Governmental Organisations and academics.

Third party research may be used, however our analysts form a proprietary view on each of the companies we analyse. Financial analysts may also use third-party research to support their assessment of ESG issues when analysing companies, in addition to consulting with our in-house ESG specialists. Through this process, we aim to evaluate the relevance and materiality of a range of ESG factors on the sustainability of future earnings growth and as potential risk factors for a company.

The Investment Manager subscribes to external ESG research providers including; MSCI ESG research, Bloomberg, Refinitiv, Sustainalytics and Morningstar, which is subject to periodic review and change.

Additional carbon reduction data is sourced from CDP and Science Based Target initiative.

Whilst the third parties that deliver the vast majority of the data used have been chosen carefully, data errors may occur. To address this, a dedicated ESG Data Governance team pro-actively monitors for errors and resolves data queries. This involves close collaboration with the third-party data providers, and managing and tracking data corrections.

Where data is not available, Schroders will engage with companies to encourage them to disclose the missing data points. Our proprietary tools provide flexibility allowing analysts to input data that is not publicly disclosed however has been disclosed during engagement into a common framework. This additional information will be used alongside data from conventional and unconventional data sources.

Some of our proprietary tools infer missing values where applicable. Our models typically employ a range of techniques to estimate missing values where appropriate and reasonably robust. For example, in one tool, where reported values are missing for companies, we fill using metric-specific rules such as filling with the industry peer group 60th percentile where higher values are considered negative and the peer group 40th percentile where higher values are considered beneficial (which is a conservative approach).

Where data for a metric is not sufficiently available to form robust conclusions, we do not include that metric in our tools.

Whilst there may be some data estimation, it tends to be a marginal amount at the portfolio level with regard to our assessment of the sustainability characteristics of each company. The proportion of estimated data may vary over time.

Limitations to methodologies and data

The limitations mainly arise from data errors, data availability and data estimation as detailed in the section titled “Data sources and processing”. In order to assess alignment with sustainable investment objectives, we draw upon a variety of data sources, meeting companies, studying research and analysing assets . Due to the range of data sources and due to combining both qualitative and quantitative elements involving a degree of subjectivity and judgement from the investment manager, we believe that these data limitations do not in aggregate materially impact our attainment of the sustainable investment objective of the Fund.

Due diligence

The Fund’s investment and asset selection process has been reviewed and approved by the Investment Manager’s Product Development Committee that includes representatives from the Legal, Compliance, Product and Sustainable Investment functions. Ongoing compliance with the agreed sustainability characteristics is monitored by the Portfolio Compliance Team. There are no external controls on that due diligence.

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Maximum percentage of revenue refers to highest acceptable revenue figure for that business activity.
Value chain refers to the related business activities that are considered these include suppliers, distributors, retailers and producers.
Any tie includes companies with an industry tie to the excluded activity.

Engagement policies

We consider active ownership to be the influence we can apply to management teams to ensure sustainable practices in the assets in which we invest. We aim to drive change that will protect and enhance the value of our investments and we are committed to leveraging the weight of our firm to change how a company is operating for the better. We believe this is an important aspect of our role as stewards of our clients' capital and how we help clients meet their long-term financial goals in line with our fiduciary responsibilities.

Our active ownership priorities reflect the combined perspectives of our fund managers, investment analysts and sustainability specialists across the firm, supported centrally by the Sustainable Investment team. As a result, we are able to take a common approach across investment desks.

We focus on sustainability issues which we determine to be material to the long-term value of our investee holdings. When material and relevant, we believe that companies that address these factors, where lacking, will drive improved financial performance for our clients. These issues reflect expectations and trends across a range of stakeholders including employees, customers, and communities, to the environment, suppliers and regulators. By strengthening relationships with that range of stakeholders, business models become more sustainable. The governance structure and management quality that oversee these stakeholder relationships are also a focus for our engagement discussions. In addition, we seek to reflect the priorities of our clients. Based on this process, we identify six broad themes for our engagement: climate, natural capital & biodiversity, human rights, human capital management, diversity & inclusion and governance.

Our themes are underpinned by additional cross-cutting thematic priorities. We also increasingly recognise the interconnectedness of ESG themes, such as the "just transition", which recognises the social dimension of the transition to a resilient and low-carbon economy. We seek to reflect this interconnectedness in our engagements with companies.

How we engage

We identify three key methods for practicing active ownership:

1. Dialogue: We speak with companies to understand if and how they are preparing for the long-term sustainability challenges they face.
2. Engagement: We work with companies to help them to recognise the potential impact of these challenges and to help them take action in the areas where change may be required.
3. Voting (where applicable): We use our voice and rights as shareholders to make sure these changes are effected.

These forms of active ownership can take place directly with companies, led by our fund managers, investment analysts and Sustainable Investment team; they can also take place in collaboration with other groups. Engagement is therefore a component of the portfolio's investment strategy, both from an environmental and social perspectives.

We recognise that effective engagement requires continuous monitoring and ongoing dialogue. Where we have engaged repeatedly and seen no meaningful progress, we will escalate our concerns. Decisions on whether and how to escalate are based on the materiality of each issue, its urgency, the extent of our concern and whether the company has demonstrated progress through previous engagements. We identify a number of methods to escalate our engagements, such as meeting or otherwise communicating with non-executive directors or the chair of the Board, publicly stating our concerns, withholding support or voting against management and directors (where applicable) up to divesting partially or fully.

Our approach to active ownership focusses on achieving real-world outcomes and achieving change. When determining when to engage and setting an objective for the engagement, we consider:

1. Materiality: We seek to focus our engagement on the most material sustainability threats and opportunities to the company.

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2. Regional context: The materiality of issues and the expectations we have of companies vary by country and region; for example, differing socio-cultural factors, regulatory maturity and resource constraints. Where possible we reference country or regional initiatives, regulations and leading practice from peers in our dialogue with companies.
3. Realistic outcomes: We consider both leading practice and what could realistically be achieved by the company in the next few years, including considering the size of the company.
4. Ability to monitor progress: We use objective, measurable metrics or indicators that can be used to assess company performance on an issue.
5. Length of engagement: We aim to set short- to mid-term objectives – that can often be achieved over a 12- to 24-month period depending on the intensity of the engagement – but with a longer-term vision in mind.

We aim to set pre-defined SMART (specific, measurable, achievable, realistic and time-bound) engagement objectives. We regularly monitor progress against the engagement objectives, at least annually, and at a frequency that is appropriate for the priority of the engagement and materiality of the issue or holding. That said, we recognise that the length of time to achieve an objective will vary depending upon its nature, and that key strategic changes will take time to implement into a company's business processes. A measurable outcome from our engagement upon completion of an objective could take a range of forms, including additional disclosure by a company, influencing the company strategy on a particular issue, or a change to the governance of an issue.

Further details on our approach to active ownership policy is publicly available: https://mybrand.schroders.com/m/3222ea4ed44a1f2c/original/schroders-engagement-blueprint.pdf.

Attainment of the sustainable investment objective

The Fund's objective includes a reduction in carbon emissions, which means that it aims for low carbon emissions, consistent with the long-term objectives of the Paris Agreement on limiting global warming. The Investment Manager seeks to ensure continued reduction in carbon emissions by investing in issuers with set targets to reduce carbon emissions and issuers that contribute to reducing carbon emissions. The Investment Manager periodically assesses whether an issuer still publicly commits to the emissions reduction targets through which it earlier qualified for investment by the Fund and seeks to identify cases where targets were retracted. The Investment Manager also seeks to identify situations where an issuer's emissions reduction targets did not keep pace with the emissions reduction trajectory for that sector and reviews any major changes in the emissions profile of an issuer, for example due to mergers or acquisitions. These considerations may lead to divestment by the Investment Manager.

No reference benchmark has been designated for the purpose of attaining the sustainable investment objective.

Source: Schroders, as at June 2024. Screening data is provided by a third party unless otherwise specified.
Maximum percentage of revenue refers to highest acceptable revenue figure for that business activity.
Value chain refers to the related business activities that are considered these include suppliers, distributors, retailers and producers.
Any tie includes companies with an industry tie to the excluded activity.