

## Schroder Matching Plus - Equity Sentinel

### Summary

The Fund has adopted the MSCI World Low Carbon Target Index with a 10% volatility target as its Reference Index. The Fund's use of the Reference Index means that it maintains a lower carbon exposure than it would have achieved using the equivalent standard index - the MSCI World Index with a 10% volatility target (the Standard Index), based on the Weighted Average Carbon Intensity (WACI). The Fund does this by providing exposure, via total return swaps (TRS) and put options, to the Reference Index, which is a broad market index designed to have a lower carbon exposure relative to the Standard Index (in this case the MSCI World index with a 10% volatility target). The Standard Index (which is a broad market index) does not take into account the environmental and social characteristics of the Fund.

The carbon exposure is a measure of the portfolio's exposure to carbon-intensive companies. It is expressed as the carbon emissions per million dollars of revenue and displayed as metric tons CO<sub>2</sub>e / \$M revenue. The carbon intensity is measured using data from a third party provider. Where a data point is not available, the provider may make use of estimated data. The Fund uses derivatives with the aim of achieving investment gains, reducing risk and managing the Fund more efficiently. These derivatives may include total return swaps, put options and forward foreign exchange contracts. Total return swaps may be used on a continuous basis to gain long and short exposure on equities and equity related securities. The gross exposure of total return swaps used to give access to the Reference Index within the Fund will not exceed 1000% and is expected to remain within the range of 200% to 800% of the Net Asset Value. In certain circumstances this proportion may be higher.

The Fund may also apply certain exclusions, which it aims to achieve through nominal exposure to the Reference Index. Further information on the Fund's exclusions is to be found further below under the "Monitoring of environmental or social characteristics" section.

The Reference Index, which has been selected by the Investment Manager, applies governance and sustainability criteria when selecting investments. These criteria include a screen which excludes companies based on very severe ESG controversies, according to MSCI's proprietary ESG Controversies metric ("MSCI ESG Controversies").

This financial product promotes environmental or social characteristics, but does not have as its objective sustainable investment.

The minimum proportion of the Fund's assets used to attain the environmental or social characteristics is equal to 80%. The Fund includes investments that are treated as neutral for sustainability purposes, such as cash and derivatives used with the aim of reducing risk (hedging) or managing the Fund more efficiently.

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 limits applicable to the Fund will be measured within the Investment Manager's portfolio compliance framework.

The Reference Index is the data source used to achieve the Fund's environmental or social characteristics. The Reference Index is constructed by selecting constituents of a market capitalization weighted index (the

Standard Index) through an optimization process that aims to maximize the reduction of carbon exposure compared to the Standard Index – in terms of carbon emissions and fossil fuel reserves.

Limitations to the Investment Manager's methodology and data may arise from data availability, and specifically the lack of company reported data available to the provider of the Reference Index.

As the Fund does not have any direct exposure to the companies included within the Reference Index, the Investment Manager does not anticipate direct engagement with those companies. 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.

The MSCI World Low Carbon Target Index with 10% volatility target is the designated reference benchmark for the Fund.

## No sustainable investment objective

This financial product promotes environmental or social characteristics, but does not have as its objective sustainable investment.

## Environmental or social characteristics of the financial product

The Fund has adopted the MSCI World Low Carbon Target Index with a 10% volatility target as its Reference Index. The Fund's use of the Reference Index means that it maintains a lower carbon exposure than it would have achieved using the equivalent standard index - the MSCI World Index with a 10% volatility target (the Standard Index), based on the Weighted Average Carbon Intensity (WACI). The Fund does this by providing exposure, via total return swaps (TRS) and put options, to the Reference Index, which is a broad market index designed to have a lower carbon exposure relative to the Standard Index (in this case the MSCI World index with a 10% volatility target). The Standard Index (which is a broad market index) does not take into account the environmental and social characteristics of the Fund.

The Fund's notional exposure to the Reference Index may vary over time, in accordance with the Investment Policy, and the Fund's carbon exposure will also therefore vary. The Investment Manager expects that the Fund's gross exposure of total return swaps used to give access to the Reference Index within the Fund will remain within the range of 200% to 800% of the Fund's Net Asset Value, so investors should therefore expect the Fund to generally have this level of notional exposure to low carbon assets via the Reference Index.

The carbon exposure is a measure of the portfolio's exposure to carbon-intensive companies. It is expressed as the carbon emissions per million dollars of investment revenue and displayed as metric tons CO<sub>2</sub>e / \$M revenue. The carbon intensity is measured using data from a third party provider. Where a data point is not available, the provider may make use of estimated data.

The Fund maintains exposure to the Reference Index which applies certain exclusions relating to controversial weapons companies. The Fund, through exposure to the Reference Index, also excludes companies that derive 1% or more of their revenues from extraction and/or mining of thermal coal and companies that generate 5% or more of their revenues from oil sands. The Fund, through exposure to the Reference Index, also excludes companies based on very severe ESG controversies, as defined by a third-party provider.

The Fund provides exposure to companies that have good governance practices, by providing exposure to the Reference Index, which has been selected by the Investment Manager due to its governance and sustainability criteria.

Further information on all of the Fund's investment exclusions is to be found further below in the "Monitoring of environmental or social characteristics" section.

Source: Schroders, as at December 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.

The Fund may also hold its assets in cash and gilts. These investments are treated as neutral by the Investment Manager and do not form part of the portion of the Fund's portfolio that has environmental and/or social characteristics. The leveraged nature of the Fund's strategy means that its unleveraged net exposure to the Reference Index may, in practice, be very low.

## Investment strategy

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

The Fund provides exposure to the "Reference Index" with a downside risk management overlay, through the use of TRS and put options (together the "Underlying Strategy"). During upward markets the Underlying Strategy aims to track the performance of the Reference Index less any costs associated with gaining this exposure and purchasing the put options. The put options aim to reduce the risk of large losses.

The Fund uses derivatives with the aim of achieving investment gains, reducing risk and managing the Fund more efficiently. These derivatives may include total return swaps, put options and forward foreign exchange contracts. Total return swaps may be used on a continuous basis to gain long and short exposure on equities and equity related securities. The gross exposure of total return swaps used to give access to the Reference Index within the Fund will not exceed 1000% and is expected to remain within the range of 200% to 800% of the Net Asset Value. In certain circumstances this proportion may be higher.

In normal market conditions, the total return swaps and put options will have an original maturity of 12 months and their maturities will be staggered over the following 12 months. The put options will typically have a strike equal to 90% of the level of the Reference Index at their inception. If the average protection level of the Fund falls below 80% of the level of the Reference Index, the Investment Manager will seek to re-strike put options to a strike equal to 90% of the prevailing Reference Index level in order to increase the average protection level back to approximately 90%. The Investment Manager will ensure that each total return swap has an associated put option in place. When a total return swap and its associated put option matures, the Investment Manager will typically purchase a new total return swap and associated put option.

If the Investment Manager believes it to be in the best interests of investors (for example, to smooth the exposures maturing in a month or for price reasons), the Investment Manager may choose to enter into a total return swap and put option with a maturity of less than 12 months, or the Investment Manager may choose not to enter into such an investment at all.

While investing in derivatives in pursuit of its investment objective, the Fund may invest substantially in cash and cash equivalents including certificates of deposit, treasury bills, floating rate notes, money market instruments and money market funds or other investment funds seeking cash like or cash plus returns.

The Fund has adopted the MSCI World Low Carbon Target Index with a 10% volatility target - as its Reference Index. The Fund's use of the Reference Index means that it maintains a lower carbon exposure than it would have achieved using the equivalent standard index - the MSCI World Index with a 10% volatility target (the Standard Index). The Standard Index (which is a broad market index) does not take into account the environmental and social characteristics of the Fund.

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 environmental or social characteristics" section.

The Reference Index, which has been selected by the Investment Manager, applies governance and sustainability criteria.

The Reference Index, which has been selected by the Investment Manager, applies governance and sustainability criteria when selecting investments. These criteria include a screen which excludes companies based on very severe ESG controversies, according to MSCI's proprietary ESG Controversies metric ("MSCI ESG Controversies").

The MSCI ESG Controversies metric provides assessments of controversies concerning the negative environmental, social, and/or governance impact of company operations, products and services. The

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evaluation framework used in MSCI ESG Controversies is designed to be consistent with international norms represented by the UN Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, and the UN Global Compact. MSCI ESG Controversies Score falls on a 0-10 scale, with “0” being the most severe controversy.

The Fund has adopted the MSCI World Low Carbon Target Index with a 10% volatility target as its Reference Index. The Fund’s use of the Reference Index means that it maintains a lower carbon exposure than it would have achieved using the equivalent standard index - the MSCI World Index with a 10% volatility target (the Standard Index).

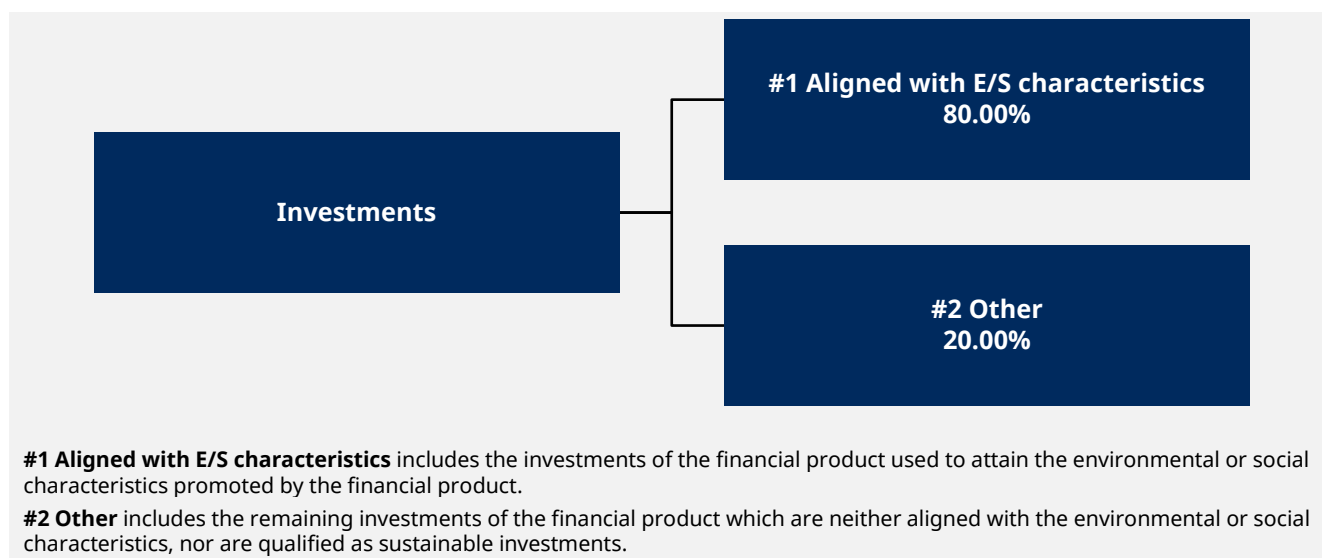
The Fund’s notional exposure to the Reference Index may vary over time, in accordance with the Investment Policy, and the Fund’s carbon exposure will also therefore vary. The Investment Manager expects that the Fund’s gross exposure of total return swaps used to give access to the Reference Index within the Fund will remain within the range of 200% to 800% of the Fund’s Net Asset Value, so investors should therefore expect the Fund to generally have this level of notional exposure to low carbon assets via the Reference Index.

The carbon exposure is a measure of the portfolio’s exposure to carbon-intensive companies. It is expressed as the carbon emissions per million dollars of revenue and displayed as metric tons CO<sub>2</sub>e / \$M revenue. The carbon intensity is measured using data from a third party provider. Where a data point is not available, the provider may make use of estimated data.

More details on the Investment Manager’s approach to sustainability are available on the website [www.schroders.com/en/lu/private-investor/strategic-capabilities/sustainability/disclosures](http://www.schroders.com/en/lu/private-investor/strategic-capabilities/sustainability/disclosures)

## Proportion of investments

The planned composition of the Fund’s investments that are used to meet its environmental or social characteristics are summarised below.



**#1 Aligned with E/S characteristics** includes the total return swaps, which provide a notional exposure to the Reference Index, which is at least 80% of the Fund’s Net Asset Value. The minimum proportion stated applies in normal market conditions. The use of total return swaps to gain leveraged exposure to the Reference Index means that the value of the Fund’s assets linked to the Reference Index may, in practice, be very low. However, the Investment Manager expects that the Fund’s gross exposure of total return swaps used to give access to the Reference Index within the Fund will remain within the range of 200% to 800% of the Fund’s Net Asset Value, so investors should therefore expect the Fund to generally have this level of notional exposure to low carbon assets via the Reference Index.

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For more information on how the sustainability score is measured please refer to the "Methodologies for environmental or social characteristics" section.

**#2 Other** includes investments that are treated as neutral for sustainability purposes, such as cash and derivatives used with the aim of reducing risk (hedging) or managing the Fund more efficiently (including but not limited to the put options and FX forwards).

Minimum safeguards are applied where relevant to derivatives used with the aim of reducing risk (hedging) or other investments 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 environmental or social characteristics

The Investment Manager monitors compliance with the characteristic - using the low carbon Reference Index to maintain a lower carbon exposure than would have been achieved using the Standard Index - by reference to the carbon emissions measured on a weighted average based on quarterly holdings using data from a third party provider.

The Investment Manager aims to achieve this by providing exposure, via TRS and put options, to the Reference Index, which is designed to minimise the carbon exposure relative to the Standard Index, whilst maintaining a tracking error constraint of 50 basis points relative to the Standard Index. The Reference Index aims to reflect a lower carbon exposure than that of the Standard Index by overweighting companies with low carbon emissions (relative to sales) and those with low potential carbon emissions (per dollar of market capitalization).

The exclusion of certain activities, industries or groups of issuers listed below, as well as the investment limits applicable to the Fund, is intended to be achieved through nominal exposure to the Reference Index. The Fund's exposure to the Reference Index will be measured within the Investment Manager's portfolio compliance framework. The Investment Manager also carries out an additional assessment of the Fund's carbon exposure using data from the Reference Index and the Standard Index.

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.

### Exclusion Criteria

The Fund maintains exposure to the Reference Index which applies certain exclusions relating to controversial weapons companies. The Fund, through exposure to the Reference Index, also excludes companies that derive 1% or more of their revenues from extraction and/or mining of thermal coal and companies that generate 5%

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

or more of their revenues from oil sands. The Fund, through exposure to the Reference Index, also excludes companies based on very severe ESG controversies, as defined by a third-party provider. Full details of the exclusions applied within the Reference Index's methodology can be found here: <https://www.msci.com/index-methodology>

## Methodologies for environmental or social characteristics

The Fund promotes the following characteristic: The Fund has adopted the MSCI World Low Carbon Target Index with a 10% volatility target as its Reference Index. The Fund's use of the Reference Index means that it maintains a lower carbon exposure than it would have achieved using the equivalent standard index - the MSCI World Index with a 10% volatility target (the Standard Index). The Fund does this by providing exposure, via total return swaps (TRS) and put options, to the Reference Index, which is a broad market index designed to have a lower carbon exposure relative to the Standard Index (in this case the MSCI World index with a 10% volatility target). The Standard Index (which is a broad market index) does not take into account the environmental and social characteristics of the Fund.

The carbon exposure represents the emissions of the portfolio relative to the market value of the portfolio. It is expressed as the carbon emissions per million dollars of investment and displayed as tons CO<sub>2</sub>e / €M investment. This is measured using data from a third party provider. Where a data point is not available, the provider may make use of estimated data. The Fund's notional exposure to the Reference Index may vary over time and the Fund's carbon exposure will also therefore vary.

The Fund may also hold its assets in cash and gilts. These investments are treated as neutral by the Investment Manager and do not form part of the portion of the Fund's portfolio that has environmental and/or social characteristics.

The leveraged nature of the Fund's strategy means that its unleveraged net exposure to the Reference Index may, in practice, be very low. The Investment Manager aims to achieve this by providing exposure, via TRS and put options, to the Reference Index, which is designed to minimise the carbon exposure relative to the Standard Index, whilst maintaining a tracking error constraint of 50 basis points relative to the Standard Index. The Reference Index aims to reflect a lower carbon exposure than that of the Standard Index by overweighting companies with low carbon emissions (relative to sales) and those with low potential carbon emissions (per dollar of market capitalization).

## Data sources and processing

The Reference Index is the data source used to achieve the Fund's environmental or social characteristics. The Reference Index has been selected as it is designed to address two dimensions of carbon exposure – carbon emissions and fossil fuel reserves. The Reference Index is constructed by selecting constituents of a market capitalization weighted index (the Standard Index) through an optimization process that aims to maximize the reduction of carbon exposure compared to the Standard Index – in terms of carbon emissions and fossil fuel reserves.

The MSCI World Low Carbon Target index re-weights stocks based on their carbon exposure in the form of carbon emissions and fossil fuel reserves. By overweighting companies with low carbon emissions relative to sales and those with low potential carbon emissions per dollar of market capitalization, the indices aim to reflect a lower carbon exposure than that of the broad market. The indices are designed to achieve a target level of tracking error while minimizing the carbon exposure. This methodology is available on MSCI's website: <https://www.msci.com/low-carbon-indexes>.

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.

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## Limitations to methodologies and data

The Fund promotes the following characteristic: The Fund has adopted the MSCI World Low Carbon Target Index with a 10% volatility target as its Reference Index. The Fund's use of the Reference Index means that it maintains a lower carbon exposure than it would have achieved using the equivalent standard index - the MSCI World Index with a 10% volatility target (the Standard Index). The Fund does this by providing exposure, via total return swaps (TRS) and put options, to the Reference Index, which is a broad market index designed to have a lower carbon exposure relative to the Standard Index (in this case the MSCI World index with a 10% volatility target). The Standard Index (which is a broad market index) does not take into account the environmental and social characteristics of the Fund.

Limitations to the Investment Manager's methodology and data mainly arise from data errors, data availability, specifically the lack of company reported data in some cases and data estimation as detailed in the section titled "Data sources and processing". 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 environmental or social characteristics 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.

## Engagement policies

As the Fund does not have any direct exposure to the companies included within the Reference Index, the Investment Manager does not anticipate direct engagement with those companies.

Further details on Schroders' wider approach to active ownership is publicly available:

<https://mybrand.schroders.com/m/3222ea4ed44a1f2c/original/schroders-engagement-blueprint.pdf>.

## Designated reference benchmark

The MSCI World Low Carbon Target Index with 10% volatility target is the designated reference benchmark for the Fund.

This Reference Index has been selected as it is designed to address two dimensions of carbon exposure – carbon emissions and fossil fuel reserves. The Reference Index is constructed by selecting constituents of a market capitalization weighted index (the Standard Index) through an optimization process that aims to maximize the reduction of carbon exposure compared to the Standard Index – in terms of carbon emissions and fossil fuel reserves.

The Fund is limited to providing exposure to the Reference Index with a downside risk management overlay, through the use of TRS and put options, by its investment policy.

The MSCI World Low Carbon Target index re-weights stocks based on their carbon exposure in the form of carbon emissions and fossil fuel reserves. By overweighting companies with low carbon emissions relative to sales and those with low potential carbon emissions per dollar of market capitalization, the indices aim to reflect a lower carbon exposure than that of the broad market. The indices are designed to achieve a target level of tracking error while minimizing the carbon exposure.

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