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Schroder ISF Global Cities (“The Fund”)

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A. Statement of Purpose

The Fund aims to provide capital growth and income in excess of the FTSE EPRA NAREIT Developed GBP (Net Total Return) index (after fees have been deducted) over a three to five year period by investing in equity and equity related securities of real estate companies worldwide and which the Investment Manager deems to be sustainable investments.

Over the long term we would expect real estate located in sustainable Global Cities to generate a strong total return. In addition, we believe this fund can be used by an investor for their entire real estate allocation due to the diversified investments in the fund, both by city and sub sector. The Fund is actively managed and invests at least 80% of its assets in equity and equity related securities of real estate companies worldwide that qualify as sustainable investments with a focus on companies that invest in cities that the Investment Manager believes will exhibit continued economic growth, supported by factors such as strong infrastructure and supportive planning regimes. Sustainable investments are investments that contribute towards more environmentally resilient and innovative cities and infrastructure.

The Fund invests in companies that do not cause significant environmental or social harm and have good governance practices. 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 Investment Manager actively engages with companies held by the Fund to challenge identified areas of weakness on sustainability issues.

The Fund has the objective of sustainable investment (within the meaning of Article 9 SFDR). A Fund with this objective may have limited exposure to some companies, industries or sectors as a result and the Fund may forego certain investment opportunities, or dispose of certain holdings, that do not align with its sustainability criteria chosen by the Investment Manager. As Investors may differ in their views of what constitutes sustainable investing, the Fund may also invest in companies that do not reflect the beliefs and values of any particular Investor.

B. Proprietary Tools

ESG is the basis on which companies make it into the Long Term Index and then the portfolio, through a process of exclusions.

In Stage 1, the location of a company's assets are ranked using four databases, two of these are ESG focussed:

- ***Environmental Impact database*** ranks companies in terms of 'E' by measuring how sustainable a location is. To do this, the database draws on large numbers of Data sources including NASA, ESA, Brookings and other research institutes.
- ***Transport Impact database*** ranks companies in terms of 'S' by looking at the availability of mass transit. A study undertaken at Harvard shows mass transit is a great social leveller enabling communities to access the job market. Our database is market leading and we can see the average walk times to all modes of mass transit in any city, as well as the freight and passenger throughput of Airports and Ports. Transport is the lifeblood of a city.

1. 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 Investment Manager applies sustainability criteria when selecting investments for the Fund. The investment universe is analysed in two distinct phases. Each phase leads to companies being excluded based on weak sustainability metrics:

– **Stage 1** analyses cities on a range of **environmental and social metrics**. Companies are then scored based on their exposure to the superior/ inferior locations. Companies in the bottom quartile are removed from the Fund's investment universe
– **Stage 2** focusses on determining the **quantum to be invested in each company**, using both internal (i.e. Schroders' proprietary sustainability tools and external sustainability measurement tools. The analysis awards a sustainability score to each company. The process excludes the bottom quartile of companies (based on their sustainability score) from investment by the Fund
The Investment Manager may also engage with companies in the portfolio, which are expected to demonstrate a clear commitment to sustainability both in their relationships with stakeholders and in their efforts to mitigate their impact on the natural environment.

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.

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 equity and equity related securities of real estate companies worldwide.

Target constraining and/or comparative benchmarks do not take into account the sustainable objective of the Fund.

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. That analysis also informs our engagement with companies; where we consider companies' business practices may be unsustainable we regularly engage management teams to better understand their plans, and to promote more responsible behaviour.

As part of this framework, our investment process excludes from consideration, companies which are deemed to be UNGC fails, in addition to a broader range of issues. Furthermore we screen using the Global Norms MSCI screens for:

- compliance with the UN Guiding Principles for Business and Human Rights
- compliance with the International Labour Organisation's broader set of labour standards.

In addition and beyond this systematic screening, managers will take into account any information they are aware of with regards to a company's behaviour

As detailed below, at a firm level we also exclude investments that fail to comply with the international conventions on cluster munitions, anti-personnel mines, biological weapons and chemical weapons.

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 real estate companies, 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 real estate companies, 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 real estate companies, 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 real estate companies, 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 real estate companies, the Fund excludes any companies involved in conventional oil and gas.

f. Power Generation

Thorough due diligence carried out by analysts and fund managers during an ongoing research process that includes regular company interaction ensures that we are kept aware of any changes in capacity / production levels. Were a company to initiate or expand we are therefore in a position to take swift action. Given the revenue based investment exclusions in place and the positive societal contribution focus of the portfolio, we do not currently hold any fossil fuel or Nuclear power generation companies.

By nature of the Fund's thematic focus on real estate companies, 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 Sustainable Investment team that co-ordinate voting and engagement on behalf the firm. Quarterly updates, as well as a yearly, reports are published. More information can found on the following page:

Schroders Sustainability Report: https://publications.schroders.com/view/408145965/

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The investment team engages directly during its meetings with management in the course of analysing investee companies and active ownership once owned. Engagement covers a wide range of issues such as mergers and acquisitions, capital structure, board structure, remuneration incentives and company specific social and environmental engagement. Schroders dynamic ESG tools help the team identify key issues to raise with company management teams and help to track progress made over time on ESG issues.

5. Best-in-class/universe selection

We exclude all companies not in the Real Estate sector including but not limited to companies in the tobacco, weapons, coal, unconventional & conventional oil and gas extraction, electricity sectors. We follow a methodical 2 stage screening process which can ultimately exclude a company from our universe. Stage 1 of the process identifies assets in the most sustainable cities. The result of this is a narrower list of potential investments named the Long Term Index (LTI) which consists of c270 stocks. Stage 2 screens companies for their ESG credentials using in house tool CONTEXT. Each company is awarded a score based on its sustainability criteria, the higher the score the larger the quantum we are willing to invest. Our process excludes companies based on a low score. Not only are we positively screening but we are also negatively excluding.

6. Sustainable themed investing

"The fund is a play on urbanisation. The world, according to the UN, is urbanising rapidly; 9bn people, or 63% of the population, are forecast to live in cities by 2035.

Urbanisation

Cities are where the knowledge economy monetises ideas. Cities at the heart of the knowledge economy grow in importance, to the detriment of post-manufacturing cities. The fund seeks to invest in companies that own assets in the most sustainable cities – environmentally and economically – around the world. To do this, the fund employs a unique two-stage process, utilising a geo-spatial methodology that integrates ESG. This Quant ESG process (Q-ESG) is a clear point of difference. This process filters companies in two stages:

1. Takes the location of a company's assets and applies a rank based on four bespoke 'Impact Scores'. This creates a list of companies eligible for stage 2. This list is called the Long Term Index (LTI)
2. From the LTI, ESG analysis using the bespoke 'CONTEXT' system and valuation establishes maximum capital allocation and position sizing.

ESG is integrated, applies exclusions and incorporates third-party data.

Sustainable Cities

Cities will be crucial in achieving UN Sustainable Development Goal 11 – Sustainable Cities and Communities. Real Assets have a large impact on the environment and create over 40% of the world's CO_2 emissions. ESG is integrated into stage 1 and 2 of our investment process and is a key factor in determining portfolio inclusion and position sizing.

D. Embedded Policies

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 deforestation, 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

Gaming

The Fund excludes all companies with exposure to the gaming sector.

Risk Considerations

Real Estate and Property Risk: Real estate investments are subject to a variety of risk conditions such as economic conditions, changes in laws (e.g. environmental and zoning) and other influences on the market.

Currency risk: The fund may lose value as a result of movements in foreign exchange rates.

Emerging Markets & Frontier risk: Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets.

Sustainability Risk Factor: The fund has the objective of sustainable investment. This means it may have limited exposure to some companies, industries or sectors and may forego certain investment opportunities, or dispose of certain holdings, that do not align with its sustainability criteria. Therefore, the fund may underperform other funds that do not apply similar criteria. The fund may invest in companies that do not reflect the beliefs and values of any particular investor.

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.

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.

Derivatives risk: 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.

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Schroders sustainability accreditation

Our Schroders sustainability accreditation helps investors distinguish how ESG factors are considered across our products. The fund has been awarded an Integrated accreditation. ESG factors are embedded into the investment process and can be clearly evidenced. There is a strong commitment to stewardship and company engagement. The fund has been awarded a Sustainable accreditation. Sustainability is a cornerstone of the investment process. The fund has been awarded a Screened accreditation. The fund has additional stock/security restrictions (not necessarily for ethical reasons) beyond cluster munitions and anti-personnel mines. For further information about our Schroders Sustainability Accreditation please visit
www.schroders.lu/sustainabilityaccreditation

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