ESG Policy - Schroder ISF European Innovators ("The Fund")

A. Statement of Purpose

The Fund aims to provide capital growth in excess of the MSCI Europe (Net TR) index after fees have been deducted over a three to five year period by investing in equity and equity related securities of European companies which help to advance the UN SDGs and which the Investment Manager deems to be sustainable investments.

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.

The Investment Manager seeks to identify science and engineering-led European companies whose business contributes to addressing challenges faced in society such as reducing CO2 emissions, tackling air pollution and managing the use of scarce resources. The Investment Manager also seeks to identify companies that provide solutions to address the needs of growing and aging populations in areas including healthcare, transport, food and access to crucial services. The Investment Manager will assess how a company is helping to solve problems in society by drawing links between the products and services it sells and one, if not several, of the UN SDGs.

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.

3. CarbonVar

Carbon value at risk (VaR) measures risks to companies' earnings should carbon prices rise to $100/t, modelling direct and indirect cost increases as well as price and volume implications (https://www.schroders.com/en/about-us/corporate-responsibility1/sustainability/climate-progress-dashboard/carbon-var/).

C. ESG Strategies

1. ESG Integration

Environmental, Social and Governance factors are taken into account through extensive fund manager due diligence, specialist ESG research from Schroders Sustainable Investment team, data from Schroders Impact IQ (suite of ESG data tools: SustainEx for Social Impact, CONTEXT for Stakeholders, Carbon VAR for Carbon Impact) and mapping to UN SDGs. In this way all 3 factors have material impact on the companies the fund managers choose to invest in and shape the engagement the fund managers have as active owners.

The fund invests in companies with best in class sustainability profiles and high quality relationships with its stakeholders (governments, suppliers, regulators, customers etc.). Should any of these relationships deteriorate as a consequence of company action then it is likely that the returns profile of the investment (and the wider fund) will suffer, as will the deterioration of the solutions the company provides its customers. Additionally, the Fund invests in businesses that are using innovation to produce products and services that solve some of the society's biggest challenges. Any material reduction in the quality or quantity of research and development investment on behalf of the companies in the fund is likely to lead to poorer returns.

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.

The Fund uses a 'Do No Significant Harm' screen that is set at a zero percent tolerance. Any existing position that creates an instance that breaks this threshold is immediately investigated by Schroders Sustainable Investment team and the fund managers are notified which will prompt further investigation. Holdings are automatically excluded at >5% sales to industries that are deemed harmful.

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.

The Fund excludes any companies involved in the production or wholesale trading of tobacco products or providing dedicated equipment or services. Companies are considered belonging in the excluded category in case their revenues from these activities exceed the 5% threshold.

The Fund excludes any company that generates more than 5% of its revenues from any form of tobacco-related activity (including production, distribution, sales and licensing).

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.

The Fund excludes for 100% (e.g. no revenue threshold) any company for companies active in the production of Nuclear, Biological or Chemical weapons, anti-personnel mines, submunitions, depleted or industrial uranium, white phosphorous or any components hereof.

The Fund excludes any company that generates more than 5% of revenues from the production of 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. **The Fund excludes the complete Carbon Underground 200 list.** Produced by FFI Solutions the list shows the top 100 coal and top 100 oil and gas companies based on the amount of potential carbon emissions if all of the reserves held by the company were to be extracted.

The Fund excludes any company that generates more than 5% of revenues from Coal related activities. In addition, qualitative due diligence is carried out by the portfolio managers ensure the company's absolute capacity or production for thermal coal related products/services shall not be increasing.

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. **The Fund excludes the complete Carbon Underground 200 list.**

The Fund excludes any company that derives more than 5% of revenues from unconventional oil and gas (including oil sands, oil shale, shale gas, coal seam gas, coal bed methane, arctic onshore/offshore) extraction and production.

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.

The Fund excludes any company that generates more than 5% of revenues from conventional oil and gas extraction. In addition, due diligence is being performed to make sure that the company's absolute capacity or production for conventional oil and gas related products/services shall not be increasing.

f. Power Generation

The fund will not invest in companies whose absolute capacity or production for coal or nuclear based energy is structurally increasing.

Should the fund invest in companies involved in the generation of power, their absolute production of capacity for renewable based energy must be increasing.

This will be identified during the multi-layered sustainability approach.

No company in the fund will have more than 50% for CAPEX dedicated to contributing activities of product for coal or nuclear based energy.

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:

Schroders Sustainability Report: 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. Sustainability themed investing

The Fund invests in companies that lead on science and engineering innovation and in doing so aid one or more of the UN SDGs. This involves a number of sustainable themes, including; the energy transition, smart cities, precision agriculture, Health Care innovation, data enablement and smart materials. At the heart of these companies is a willingness to invest and think for the long-term – to allocate capital today for the development of products that might not generate an economic return for some years. Implicit in this is a willingness at board and executive level to invest in its people and systems, as well as maintain a good profile with external parties such as regulators.

The investment universe is reduced by the fund's exclusion criteria and then the fund managers use their multi-layered approach to ESG and UN SDG mapping to identify potential European Innovators. At its core is deep due diligence and engagement with companies by the fund managers. Around this the fund managers have formal and informal integration with Schroders Sustainable Investment team who research specific companies through an ESG lens as well as broader ESG topics. Data comes from Impact IQ, Schroders suite of proprietary ESG tools to address stakeholders, carbon exposure and externalities. To map the UN SDGs the fund managers have commissioned third party analysis to compare their own research to help map companies to the UN SDGs. Their mapping uses a combination of qualitative and quantitative data. The fund managers understand that there is no clear 'right' or 'wrong' to mapping to UN SDGs and are transparent about their decision-making.

This an Article 9 fund under SFDR that clearly invest with a specific and measurable sustainability theme or objective. This means that the investments within the fund make a positive contribution to solving a sustainability challenge. We currently measure the social impact of the Fund through SustainEx and demonstrate a positive impact to society both in absolute terms, and relative to the fund’s benchmark. The business is also currently developing a tool, ThemEx, that demonstrates the contribution an investment makes to the underlying UN Sustainable Development goals.

Every company in the portfolio is related to one of these sustainable themes, as assed by the portfolio managers due diligence and via the multi-layered sustainability approach. The product is classified as an SFDR Article 9 product due to the investment approach and objectives outlined.

6. Impact investing

The Fund invests in companies that are innovating via science and engineering to produce products and services that are addressing some of the world's biggest challenges, outlined by the UN SDGs. The Fund is biased towards growth companies operating in markets with significant structural tailwinds such as the energy transition, the increased demand for health care and the role of big data.

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The Fund is measured using Impact IQ:

SustainEx captures social impact through the financial value of the externalities a company's activities impose on society. **Fund scores > 500bps higher than the benchmark and has >80% of holdings have positive score.**

CONTEXT acts as a framework to understand how a company interacts with its key stakeholders, including customers, employees, environment, communities, regulators and governments and suppliers. **Fund aims for >75% of holdings to achieve 'strong' or 'very strong' governance score.**

CarbonVAR enables the fund managers to examine companies' carbon footprints, financial exposure to climate policies, exposures to climate-driven growth and key elements of their climate strategies and management. **Currently all holdings have or are moving towards above average scores.**

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 capture the externality a company imposes on society through its water usage via SustainEx. We also engage companies with direct or indirect exposure where we feel it is appropriate.

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.

We capture the externality a company imposes on society through its tax policy via SustainEx. CONTEXT also includes metrics such as the effective versus statuary tax rate to evaluate the tax profile of the business.

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. SustainEx also captures a number of pollution and waste metrics such as food waste, plastics manufacturing and waste creation.

Gender & diversity

While the Fund does not have a specific policy on gender & diversity, they are key elements of governance through sound management structures and employee relations. CONTEXT takes this into account through metrics for 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 Factors

Capital risk/distribution policy: As the fund intends to pay dividends regardless of its performance, a dividend may represent a return of part of the amount you invested.

Concentration risk: 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.

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

Derivatives risk – efficient portfolio management and investment purposes: 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 fund may also materially invest in derivatives including using short selling and leverage techniques with the aim of making a return. When the value of an asset changes, the value of a derivative based on that asset may change to a much greater extent. This may result in greater losses than investing in the underlying asset.

IBOR Risk: 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.

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.

Market Risk: The value of investments can go up and down and an investor may not get back the amount initially invested.

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.

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.

subsequent unaudited semi-annual report, if published), copies of which can be obtained, free of charge, from Schroder Investment Management (Europe) S.A.

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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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