Additional Information with regards to sustainability practices

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A. Statement of Purpose

Schroder ISF Sustainable EURO Credit is a dynamic and dedicated credit fund that selectively invests in Euro and Euro hedged bonds issued by companies that can demonstrate strong or improving sustainable business activities and behaviours from a diversified global sustainable credit universe, aiming to provide income and growth in the long run.

The fund targets its investments towards environmentally and socially responsible themes and activities through prioritising care for the environment, and encouraging greater transparency, diversity and other sustainable factors from bond issuers. By doing so the fund aims at sponsoring change towards a more sustainable word, while delivering sustainable investment returns to our customers.

Our Sustainable EURO Credit strategy applies static and dynamic screens to combine best-in-class companies with forward-looking investments in issuers demonstrating improving sustainability credentials.

By applying norm-based screens we exclude issuers that source a material proportion of their revenue from practices that are harmful to the environment, violate human rights or create negative externalities that are paid for by the society. Furthermore, we aim to limit laggards following also our proprietary ESG assessment an tools.

Overall, our exclusions and our ESG assessment methodology will tilt the portfolio towards global issuers that demonstrate strong sustainability metrics in their sectors and those that are committed to meaningful improvement. Therefore, we would expect that the fund will score better on external ESG metrics than our reference comparator, which is the ICE BofAML Euro Corporate Index. Even though this index is not a benchmark for the fund, we use is for comparative purpose. The average MSCI ESG rating for the fund was AA in comparison to A for the reference comparator as of end of November 2021.

We also use our in house tool SustainEx to identify diverse issuers with a net positive impact to the society. SustainEx also helps up to prioritise themes like medicine provisions, connectivity, water access, employee training as well as avoided emissions which helps to construct the portfolio with positive social impact.

B. Proprietary Tools

1. Credit 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.

2. SustainEx

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

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.

3. Engagement Dashboard

The analysts and Sustainable Credit PM regularly engages with companies for ESG related fact finding and change facilitation. These engagements are recorded with E, S or G objectives and followed up by the credit team with time stamps, and approved and reviewed by our central Sustainability team.

Such Engagements help us to find improvers, find about mitigation steps after controversies as well as encourage companies to disclose and set targets.

C. ESG Strategies

1. ESG Integration

E, S & G factors form a core element of the fund's decision making process. The fund targets its investments towards environmentally and socially responsible themes and activities through prioritising care for the environment, and encouraging greater transparency, diversity and other sustainable factors from bond issuers. By doing so the fund aims at sponsoring change towards a more sustainable word, while delivering sustainable investment returns to our customers.

The fund applies its sustainable approach through the following criteria:

- Hard exclusions of environmentally destructive (i.e. fossil fuel extraction and energy generation), socially costly (i.e. alcohol and tobacco, gambling,), and human rights violating (adult entertainment, weapons, UNGC violators) issuers. Please find a detailed description in the investment process section.
- Inclusion of issuers that demonstrate stable and (importantly) improving sustainable trajectory relative to their industry peers; encouraging innovation and transition towards a more benevolent global economy. A best in class methodology is applied here.
- Selective sustainability themes for most but not all of the portfolio. Sustainability themes include among others sustainable finance, waste management, healthcare and wellbeing, climate change mitigation/ energy efficiency and environmentally-friendly packaging.
- Engagements with issuers aimed at improving disclosure and adoption of robust ecological, social policies.
- Investing in green bonds, social bonds and sustainability bonds

ESG is at the centre of our investment process. We believe that integrating ESG into an investment process is just not a simple filter based on a snapshot of external metrics that are often and backward-looking. It is important to identify changes and how companies are managing those changes over an investible horizon. Integrating ESG factors into our research and investment process,, reflect our philosophy that ESG issues have a material impact on the medium and long-term performance of corporate issuers and the society. In order to understand the risks to financial performance as well as opportunities it is essential to identify the implicit risk that E, S & G factors brings and we use our internal ESG analysis as well as Sustainability tools to integrate ESG factors. We also use external ESG Research and ESG rankings like from MSCI for portfolio construction. Our strategy do consider carbon intensity, water intensity, waste recycling policies using data in MSCI or Bloomberg, these issues and also through hard exclusions we try to limit adverse impacts.

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.

The Fund uses SustainEx and CONTEXT to exclude companies from the investment universe.

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.

4. 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.

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 thermal 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 which generates more than 5% of revenue from unconventional oil and gas related activities. Through our due diligence process, including contact with company management, we avoid companies who we believe are planning an expansion of unconventional oil & gas extraction.

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

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.

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% of CAPEX dedicated to activities contributing to the production for coal, gas, oil or nuclear based energy.

5. 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/

The investment team conducts own Sustainability engagements as well with directly during its meetings with management in the course of analysing investee companies once owned or to find new opportunities. Engagement covers a wide range of issues such as Environmental targets and milestones, board diversity and independence, training and remuneration incentives, controversies and mitigation, and other company specific social and environmental engagement. Schroders dynamic ESG tools, external ESG data and trend, as well as company analysis help the team identify key issues to raise with company management teams and help to track progress made over time on ESG issues.

6. Best-in-class/universe selection

Our best-in-class approach is based on our internal ESG assessments of each issuers. Companies that are rated A+ to C are eligible. Companies that are rated D stable or declining cannot be purchased, however, companies that are rated D improving can be purchased. These companies are subject to engagement and they will be encouraged in their transition toward more sustainable business practices and less carbon emissions. The investment process pays strong attention to the absolute quality (A, B, C, D) as well as the direction of the rating (improving, stable, declining). We have a preference for improving stories and are careful with companies that show declining ESG characteristics.

Best in class is applied after the exclusions are applied. This means that already many of the "bad apples" have been removed from the universe when the best in class is applied and the comments below apply to the remaining issuers only. The maximum allowed fund exposure for the combination of unrated names, D rated names (internal) and MSCI B and CCC rated names is 15%. This is equivalent to no more than 15% exposure to issuers that are ESG ranked in the bottom quartile.

The fund aims to have a higher overall ESG ranking than its comparator, as evidenced by the AA MSCI rating for the fund vs a single A MSCI rating for its comparator index. Additionally, the fund aims to achieve a higher positive Social Impact score vs its comparator according to our proprietary tool SustainEx, as shown by a rating of +5 for the fund vs -0,75 for the comparator.

All in all more than 50% of the weight of the fund, are in top rated names.

7. Portfolio tilting: over/underweighting

The Fund underweight companies that are rated in the D bucket (based on our internal ESG assessment of each issuers). Lower ESG rated names by MSCI are underweight. By tilting the portfolio to lower carbon intensity as well as higher ESG improvers, the portfolio aims to be sustainable.

8. Objective to outperform BM on ESG indicator

The Fund maintains a higher overall sustainability score than its sustainability benchmark based on the investment manager’s rating system.

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. Also MSCI ESG analysis as well as Bloomberg is increasingly providing data which the team can use while engaging with companies.

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. Additionally the fund manager can look at Diversity at board level and women participation data, and tries to where data is available to tilt the portfolio towards diversity.

Death penalty

The Fund does not have a specific policy on death penalty. While investing in Sovereigns, we have so far excluded countries like USA which have the death penalty.

Forward contracts on agricultural commodities

The Fund does not invest in any agricultural commodities

Risk Considerations

- ABS and MBS risk: The fund may invest in mortgage or asset-backed securities. The underlying borrowers of these securities may not be able to pay back the full amount that they owe, which may result in losses to the fund.
- Contingent convertible bonds: The fund may invest in contingent convertible bonds. If the financial strength of the issuer of a contingent convertible bond falls in a prescribed way, the value of the bond may fall significantly and, in the worst case, may result in losses to the fund.
- Credit risk: A decline in the financial health of an issuer could cause the value of its bonds to fall or become worthless.
- 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.
- High yield bond risk: High yield bonds (normally lower rated or unrated) generally carry greater market, credit and liquidity risk.
- 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.
- Interest rate risk: The fund may lose value as a direct result of interest rate changes.
- 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.
- Sustainability risk factor: The fund has environmental and/or social characteristics. 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.

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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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