

## Schroder International Selection Fund – Emerging Markets Debt Absolute Return

### Podsumowanie

Fundusz utrzymuje wyższy ogólny wynik w zakresie zrównoważonego rozwoju niż suma 50% indeksu JPM GBI-EM Diversified i 50% indeksu JPM EMBI Diversified w oparciu o system ratingowy Zarządzającego inwestycjami. Ten wskaźnik referencyjny (będący szerokim indeksem rynkowym) nie uwzględnia cech środowiskowych i społecznych ani zrównoważonego celu promowanych w ramach Funduszu. Nie wyznaczono żadnego wskaźnika referencyjnego w celu realizacji aspektów środowiskowych lub społecznych promowanych w ramach tego produktu finansowego. Wynik Funduszu w zakresie zrównoważonego rozwoju jest mierzony za pomocą zastrzeżonego narzędzia spółki Schroders SustainEx™, które dostarcza szacunkowych danych na temat potencjalnego wpływu społecznego lub środowiskowego, jaki może wytworzyć emitent.

Fundusz jest aktywnie zarządzany i inwestuje co najmniej dwie trzecie swoich aktywów w papiery wartościowe o stałym i zmiennym oprocentowaniu, waluty i inwestycje na rynku pieniężnym rynków wschodzących. Papiery wartościowe o stałym i zmiennym oprocentowaniu są emitowane przez rządy, agencje rządowe, organizacje ponadnarodowe i spółki. Fundusz może także utrzymywać gotówkowe środki pieniężne.

Fundusz może również stosować niektóre wykluczenia. Dalsze informacje na temat wszystkich wykluczeń Funduszu znajdują się poniżej w sekcji „Monitorowanie aspektów środowiskowych lub społecznych”.

Aby ocenić dobre praktyki zarządzania, Zarządzający inwestycjami stosuje autorskie narzędzie Schroders, które pomaga mu w pełni zrozumieć spółkę z perspektywy interesariuszy. Ten produkt finansowy promuje aspekty środowiskowe lub społeczne, ale jego celem nie jest dokonywanie zrównoważonych inwestycji.

Minimalny udział aktywów Funduszu wykorzystywanych do realizacji aspektów środowiskowych lub społecznych wynosi 60%. Fundusz będzie inwestował co najmniej 5% swoich aktywów w zrównoważone inwestycje. W ramach tego nie Fundusz nie jest zobowiązany do inwestowania minimalnego udziału swoich aktywów w zrównoważone inwestycje o celu środowiskowym lub zrównoważone inwestycje o celu społecznym. Oznacza to, że udział zrównoważonych inwestycji o celu środowiskowym oraz zrównoważonych o celu społecznym będzie różnić się w czasie. Fundusz uwzględnia inwestycje traktowane jako neutralne dla celów zrównoważonego rozwoju, takie jak środki pieniężne i instrumenty pochodne wykorzystywane w celu zmniejszenia ryzyka (zabezpieczenia) lub skuteczniejszego zarządzania Funduszem. Uwzględnia również inwestycje, które nie są oceniane z zastosowaniem autorskiego narzędzia Schroders w zakresie zrównoważonego rozwoju, dlatego nie przyczyniają się do wyniku Funduszu w zakresie zrównoważonego rozwoju.

Proces wyboru inwestycji i aktywów Funduszu został poddany przeglądowi i zatwierdzony przez komitet ds. rozwoju produktu zarządzającego inwestycjami. W skład komitetu wchodzi przedstawiciele pionów odpowiedzialnych za kwestie prawne, zgodność, produkt i zrównoważone inwestowanie. Zespół ds. zgodności portfela na bieżąco monitoruje stosowanie się do uzgodnionych parametrów zrównoważonego rozwoju. W odniesieniu do procedur należytej staranności nie stosuje się kontroli zewnętrznych.

Proces inwestycyjny zarządzającego inwestycjami opiera się na zastrzeżonej oddolnej puli akcji podstawowych. Specjalistyczna wiedza zespołu inwestycyjnego oraz zespołu ds. zrównoważonego rozwoju zapewnia różnorodność koncepcji i ich dogłębną analizę w kontekście oczekiwanych trajektorii długoterminowego wzrostu, kryteriów ESG oraz aspektów zrównoważonego rozwoju.

Informacje na temat wykluczenia niektórych rodzajów działalności, sektorów lub grup emitentów znajdują się w sekcji „Monitorowanie charakterystyki środowiskowej lub społecznej”. Limity inwestycyjne mające zastosowanie do Funduszu, będą mierzone pod kątem zgodności z portfelem Zarządzającego inwestycjami.

Zarządzający inwestycjami pozyskuje informacje o spółkach, w których dokonano inwestycji, z publicznie dostępnych danych na temat spółek, posiedzeń zarządów i raportów brokerskich, a także od organów branżowych i organizacji badawczych, ośrodków analitycznych, ustawodawców, doradców, organizacji pozarządowych oraz pracowników akademickich.

Badania prowadzone przez osoby trzecie mogą być wykorzystywane, aczkolwiek nasi analitycy wewnętrzni opracowują autorskie opinie na temat każdej z analizowanych przez nas spółek.

Zarządzający inwestycjami współpracuje z zewnętrznymi realizatorami badań z zakresu ESG tym MSCI ESG Research, Bloomberg, Refinitiv, Sustainalytics i Morningstar. Kwestia ta podlega okresowej weryfikacji i zmianom.

Mimo że dołożono najwyższej staranności przy wyborze podmiotów, które dostarczają przeważającą większość danych, w danych nadal mogą wystąpić błędy. Z związku z tym specjalny zespół ds. zarządzania danymi ESG aktywnie monitoruje dane pod kątem błędów i rozwiązuje problemy powstałe w trakcie kwerendy danych. Wiąże się to z bliską współpracą z zewnętrznymi dostawcami danych oraz wymaga zarządzania korektami danych i ich śledzenia.

Ograniczenia metodologii i danych Zarządzającego inwestycjami mogą wynikać z poziomu dostępności danych, a w szczególności z braku danych zgłaszanych przez spółki.

Jeżeli określone dane nie są dostępne, Schroders będzie zachęcać spółki do ujawnienia brakujących danych.

W uzasadnionych przypadkach niektóre z naszych autorskich zastrzeżonych narzędzi pozwalają uzupełniać brakujące wartości. Nasze modele zazwyczaj wykorzystują szereg technik służących do szacowania brakujących wartości tam, gdzie to możliwe i miarodajne.

W przypadku gdy dane dla określonego wskaźnika nie są wystarczające do sformułowania wiarygodnych wniosków, nie uwzględniamy tego wskaźnika w naszych narzędziach.

Za kodowanie i monitorowanie ograniczeń ryzyka inwestycyjnego według funduszy i zgód klientów odpowiada zespół ds. zgodności portfela Zarządzającego inwestycjami w ramach niezależnego pionu Ryzyka Inwestycyjnego.

Dane zawarte w modelu zgodności portfela stanowią podstawę do monitorowania limitów i wskaźników ryzyka, a najnowsze informacje na temat struktury portfela (takie jak alokacja aktywów, sektor i pozycje krajowe) oraz wskaźniki ryzyka są łatwo dostępne dla naszych zespołów zajmujących się ryzykiem inwestycyjnym, zgodnością portfela i inwestycjami.

Uważamy, że przyjmując odpowiedzialność w sposób proaktywny, możemy wpływać na zespoły zarządzające, tak aby zapewnić zrównoważone praktyki w zakresie aktywów, w które inwestujemy. Dążymy do stymulowania zmian, które będą sprzyjać ochronie i zwiększaniu wartości naszych inwestycji, i przykładamy szczególną wagę do tego, by potencjał naszej firmy wykorzystać z korzyścią dla funkcjonowania danej spółki. Uważamy, że jest to ważny aspekt pełnionej przez nas roli zarządców kapitału klientów oraz tego, w jaki sposób pomagamy klientom w realizacji ich długoterminowych celów finansowych zgodnie z naszymi obowiązkami powierniczymi.

Dodatkowe informacje na temat naszego podejścia do aktywnej polityki odpowiedzialności są dostępne tutaj: <https://mybrand.schroders.com/m/3222ea4ed44a1f2c/original/schroders-engagement-blueprint.pdf>.

Source: Schroders, as at July 2023. 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.

## No sustainable investment objective

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

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

- Firm-wide investment exclusions apply to Schroders funds. These relate to international conventions on cluster munitions, anti-personnel mines, and chemical and biological weapons and a list of those companies that are excluded is available at <https://www.schroders.com/en/sustainability/active-ownership/group-exclusions/>. Firm-wide exclusions also apply to companies generating more than 20% of their revenue from thermal coal mining.
- The Fund excludes companies that derive revenues above certain thresholds from activities related to tobacco and thermal coal.
- The Fund excludes companies that are assessed by Schroders to have breached one or more 'global norms' thereby causing significant environmental or social harm; these companies comprise Schroders' 'global norms' breach list. Schroders' determination of whether a company has been involved in such a breach considers relevant principles such as those contained in the UN Global Compact (UNGC) principles, the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights. The 'global norms' breach list may be informed by assessments performed by third party providers and by proprietary research, where relevant to a particular situation. In exceptional circumstances a derogation may be applied in order to allow the Fund to continue to hold a company on Schroders' 'global norms' breach list, for example where the stated investment strategy of the Fund may otherwise be compromised. Any such company cannot be categorised as a sustainable investment.
- The Fund may also apply certain other exclusions in addition to those summarised above.

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.

Wherever the Investment Manager deems it appropriate, in the context of an incomplete and developing data landscape, the Investment Manager sets levels or principles representing its views of what would constitute significant harm in respect of the indicators for the principal adverse impacts. Investee companies deemed not to satisfy these levels or principles would not be eligible to be considered as a sustainable investment. This framework is subject to ongoing review, particularly as the availability, and quality, of the data evolves.

## Environmental or social characteristics of the financial product

The Fund maintains a higher overall sustainability score than the 50% JPM GBI-EM Diversified Index and 50% JPM EMBI Diversified Index, based on the Investment Manager's rating system. This benchmark (which is a broad market index) does not take into account the environmental and social characteristics promoted by the Fund.

The result is expressed as an aggregate score of the sustainability indicators for each issuer, specifically a notional percentage (positive or negative) of sales or GDP of the relevant underlying issuer. For example, a score of +2% would mean an issuer contributes \$2 of relative notional positive impact (i.e. benefits to society) per \$100 of sales or GDP. The sustainability score of the Fund is derived from the scores of all issuers in the Fund's portfolio measured by Schroders' proprietary tool.

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## Investment strategy

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

The Fund is actively managed and invests at least two-thirds of its assets (excluding deposits and Money Market Investments in developed markets) in fixed and floating rate securities, currencies and Money Market Investments in emerging markets. The fixed and floating rate securities are issued by governments, government agencies, supra-nationals and companies. The Fund may also hold cash.

The Fund may hold up to 40% of its assets in deposits and Money Market Investments in developed markets.

The Fund may invest in excess of 50% of its assets in fixed and floating rate securities that have a below investment grade credit rating (as measured by Standard & Poor's or any equivalent grade of other credit rating agencies).

The Fund may invest up to 15% of its assets in mainland China through Regulated Markets (including the CIBM via Bond Connect or CIBM Direct).

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

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

The Fund maintains a higher overall sustainability score than 50% JPM GBI-EM Diversified Index and 50% JPM EMBI Diversified Index based on the Investment Manager's rating criteria.

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

In order to assess good governance practices, the Investment Manager utilises a Schroders' proprietary tool to help it develop a complete understanding of a company through a stakeholder lens.

Schroders' proprietary tool is data-driven and provides a systematic framework for analysing a company's relationship with its stakeholders. It identifies key performance drivers and data points to examine company strengths and weakness across different key stakeholder groups and is a central driver of the assessment of a company's stakeholder management.

The proprietary tool includes over 250 data points to assess how well companies are governed and how likely they are to adapt to changing social and environmental pressures. It draws on both conventional and unconventional data sources. Examples of unconventional data are employee review reports, consumer product reviews, revenue from green products, community donations and frequency of lawsuits. By drawing on such unconventional sources that do not rely on company reporting, the Investment Manager is able to build a more complete picture of companies' performance and reduce its reliance on corporate disclosure, which remains incomplete, particularly among smaller companies in emerging regions.

The proprietary tool considers a number of good governance metrics, grouped into the categories of sound management structures, employee relations, remuneration of staff and tax compliance.

Sustainability factors are assessed across both sovereign markets and credit allocation decisions.

The Investment Manager assesses sovereign issuers across a range of environmental, social and governance factors, via the use of Schroders' proprietary sustainability tools which ranks countries by measuring their performance against multiple sustainability-related indicators. In addition, the Investment Manager conducts qualitative analysis, which includes the use of information published by sovereigns and third party data, on ESG factors at a regional and country level to further enhance oversight and understanding. Countries that score below a predetermined threshold, determined by Schroders' proprietary sustainability tools and the analysis undertaken by the Investment Manager, will generally be excluded.

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Corporate issuers are also assessed across a range of environmental, social and governance factors. The primary sources of information used to perform corporate analysis are the Investment Manager's proprietary tools and research, third-party research, NGO reports and expert networks. The Investment Manager also performs its own analysis of publicly available information provided by the issuers, including information provided in company sustainability reports and other relevant company material.

More details on the Investment Manager's approach to sustainability and its engagement with companies are available on the webpage:

<https://www.schroders.com/en/lu/private-investor/strategic-capabilities/sustainability/disclosures>.

The Fund maintains a higher overall sustainability score than its investment universe, based on the Investment Manager's rating system.

The Investment Manager ensures that at least:

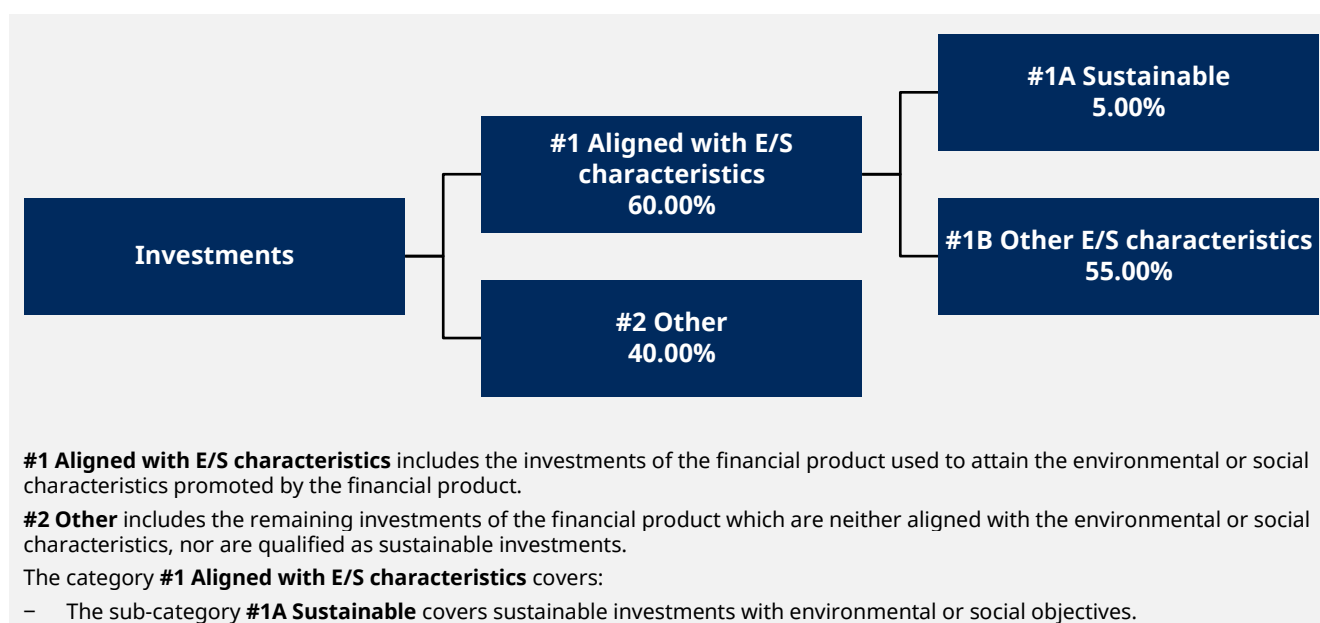
- 90% of the portion of the Fund's NAV composed of equities issued by large companies domiciled in developed countries; fixed or floating rate securities and money market instruments with an investment grade credit rating; and sovereign debt issued by developed countries; and
- 75% of the portion of the Fund's NAV composed of equities issued by large companies domiciled in emerging countries; equities issued by small and medium companies; fixed or floating rate securities and money market instruments with a high yield credit rating; and sovereign debt issued by emerging countries,

is rated against the sustainability criteria. For the purposes of this test, small companies are those with market capitalisation below €5 billion, medium companies are those between €5 billion and €10 billion and large companies are those above €10 billion.

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

## Proportion of investments

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



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- The sub-category **#1B Other E/S characteristics** covers investments aligned with the environmental or social characteristics that do not qualify as sustainable investments.

**#1 Aligned with E/S characteristics** includes the minimum proportion of the Fund's assets used to attain the environmental or social characteristics, which is equal to 60%. The Fund commits to maintain a higher overall sustainability score than the 50% JPM GBI-EM Diversified Index and 50% JPM EMBI Diversified Index, and so the Fund's investments that are scored by Schroders' proprietary sustainability tool are included within the minimum proportion stated in #1 on the basis that they will contribute to the Fund's sustainability score (whether such individual investment has a positive or a negative score). The minimum proportions stated apply in normal market conditions. The actual proportion stated in #1 is expected to be higher.

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

**#2 Other** includes cash which is treated as neutral for sustainability purposes. #2 also includes investments that are not scored by Schroders' proprietary sustainability tool and so do not contribute towards the Fund's sustainability score. As #1 states a minimum proportion that is in practice expected to be higher, the proportion stated in #2 is expected to be lower.

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 sustainability score of the Fund is measured by SustainEx™, Schroders' proprietary tool that provides an estimate of the societal or environmental impact that an issuer may create.

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

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

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

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## Exclusion Criteria

### Environmental exclusions

Excluded Activity	Criteria
Thermal Coal Mining Maximum Percentage of Revenue	10%
Thermal Coal Power Generation Maximum Percentage of Revenue	30%

### Social exclusions

Excluded Activity	Criteria
Tobacco Production Maximum Percentage of Revenue	5%
Tobacco Value Chain Maximum Percentage of Revenue	25%
Nuclear Weapons Maximum Percentage of Revenue	5%
Biological/Chemical Weapons Maximum Percentage of Revenue	0%
Any Tie to Depleted Uranium Manufacturing	Any tie
Any Tie to Cluster Munitions	Any tie
Any Tie to Landmine Manufacturing	Any tie

### Bespoke Schroders exclusions

Excluded Activity	Criteria
Schroders Controversial Weapons Curated List <sup>1</sup>	All
Companies Flagged for Violating the UN's Global Compact Principles	Fail
Schroders' 'Global Norms' Breach List	All

## Methodologies for environmental or social characteristics

The Fund promotes the following characteristic: it maintains a higher overall sustainability score than the 50% JPM GBI-EM Diversified Index and 50% JPM EMBI Diversified Index, based on the Investment Manager's rating system. As stated above, the sustainability score is measured by SustainEx™, Schroders' proprietary tool that provides an estimate of the potential societal or environmental impact that an issuer may create. It does this by using certain metrics with respect to that issuer, and quantifying the positive (for example by paying 'fair wages') and negative (for example the carbon an issuer emits) impacts of each of those metrics to produce an aggregate measure expressed as a notional percentage of sales of the relevant underlying issuer. The overall sustainability score aggregates the effect of sustainability indicators including but not limited to greenhouse gas emissions, water usage, and salaries compared to the living wage. An issuer may be a company or a sovereign. The Investment Manager monitors compliance with this characteristic by reference to the weighted average sustainability score of the Fund in SustainEx™ over the previous six month period.

As part of the Fund's investment processes, the SustainEx™ score, and the drivers of that score, are reviewed at the overall fund level. Schroders proprietary tools, including SustainEx™, may not cover all of the Fund's holdings from time to time, in which case the Investment Manager may use alternative methods to assess

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

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relevant holdings in the Fund. In addition, certain types of assets (such as cash and certain equivalent securities such as gilts) are treated as neutral and are therefore not considered by our proprietary tools.

As part of its broader assessment, the Investment Manager also considers the following:

## CONTEXT

Context is a proprietary ESG research tool which 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 the Investment Manager's understanding of the sustainability of companies' business models and profitability, and provides structured, logical and wide-ranging data.

The tool enables 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.

## External Research

The Investment Manager uses information from several external ESG research firms, but only ever as one input into the Investment Manager's own company assessments to be questioned, examined and built on. External data providers are used to challenge or endorse the proprietary view of the Investment Manager.

The Investment Manager's Sustainable Investment team has extensive networks within its respective field. Information is drawn from publicly available corporate information and company meetings, from broker reports, industry bodies, and research organisations, think tanks, legislators, consultants, Non-Governmental Organisations and academics; wherever it is felt the information would add value to the Investment Manager's analysis.

Through this process, the Investment Manager aims to evaluate the relevance and materiality of a range of ESG factors on future earnings growth and as potential risk factors for a company.

## Data sources and processing

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

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

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

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

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

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Where data is not available, Schroders will engage with companies to encourage them to disclose the missing data points. This additional information will be used alongside data from conventional and unconventional data sources that feed into our proprietary tools.

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

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

## Limitations to methodologies and data

The characteristic promoted by the Fund is to maintain a higher overall sustainability score than the benchmark, based on the Investment Manager's rating system.

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

The section "Data sources and processing" outlines the approach in ensuring the above mentioned limitations do not affect how the environmental or social characteristics promoted by the financial product are met.

The Fund also commits to invest at least 5% of its assets in sustainable investments, based on the Investment Manager's rating system.

## 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

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

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

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

Source: Schroders, as at July 2023. 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.

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

### How we engage

We identify three key methods for practicing active ownership:

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

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

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

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

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

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

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

## Designated reference benchmark

No reference benchmark has been designated for the purpose of meeting the environmental or social characteristics promoted by the financial product.

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