ESG Policy - Schroder ISF Emerging Markets Equity Impact ("The Fund")

A. Statement of Purpose

The Fund aims to provide capital growth by investing in equities of emerging and frontier markets companies worldwide, or companies which derive a significant proportion of their revenues or profits from emerging markets or frontier markets countries worldwide, which help to advance the United Nations Sustainable Development Goals ("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. 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

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.

2. 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.

3. CarbonVar

We have developed a new way of looking at carbon risk: carbon footprints remain the dominant measure of carbon exposure, but are an incomplete and sometimes misleading measure of investment risk. We focus on the ways value will be lost or created as policies strengthen, through financial analysis rather than environmental research. Our carbon value at risk (VaR) model assesses the effect of a significant rise in carbon prices on a company's cost structure, industry prices, volumes and cash flows.

C. ESG Strategies

1. ESG Integration

An assessment of Environmental, Social and Governance (ESG) factors is integrated into our analysts' work at a stock level, and an ESG review is completed each time a company is researched. Analysts identify and assess the potential impact of ESG issues on the investment case for a stock and reflect this in their final valuation and recommendation. On an ongoing basis, analysts engage with portfolio companies on ESG matters, focusing on issues material to each company.

Environmental: Our ESG analysis tool Context, requires our analysts to consider each company's environmental impact across several metrics including where relevant, carbon intensity, emissions, energy efficiency and reductions policies.
Social: Information availability varies by company but through Context we are able to look at several social metrics including but not limited to employee gender diversity, health & safety records and accident rates, Glassdoor employee reviews, average compensation versus peers, published supplier guidelines and supply chain auditing.
Governance: Metrics assessed include (but are not limited to), board characteristics (tenure, gender, number of independents, board refreshment, overboarding, separation of CEO and Chairman roles), auditor rotation, multiple share classes and earnings manipulation.

Schroders' dedicated Sustainable Investment team supports the team's ESG work, providing guidance on best practice, developing proprietary tools, producing thematic research, and engaging with companies on their own behalf, as well as in concert with the investment team.

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. 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.

The Fund excludes companies deriving revenue (i.e. with 0% revenue threshold) from the production of tobacco products or providing dedicated equipment or services. Furthermore the Fund excludes companies deriving revenue from the wholesale trading of tobacco products (value chain) past a revenue threshold of 5%.

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 entirely (i.e. with 0% revenue threshold) any companies active in the production of weapons. This includes nuclear, biological or chemical weapons, anti-personnel mines, submunitions, depleted or industrial uranium, white phosphorous, conventional weapons or other (civilian) weapons or components thereof.

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 companies deriving any revenue from thermal coal exploration & production (i.e. with a 0% revenue threshold).

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 companies deriving any revenue from unconventional oil and gas exploration & production (i.e. with a 0% revenue threshold).

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 companies deriving any revenue from conventional oil and gas exploration & production (i.e. with a 0% revenue threshold).

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 excludes all companies deriving revenues from power generation past a 3% revenue threshold. Through thorough, ongoing due diligence, the Fund will also exclude companies that plan to initiate or expand power generation capacity or production, as well as companies that are not meeting a threshold of at least 50% contribution to total revenue from transitional 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 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:

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. Impact investing

The Fund has the objective of sustainable investment (within the meaning of Article 9 SFDR), investing in public companies that intentionally and materially contribute to having a positive impact to society in line with the UN SDGs including in five key areas: Health and Wellness, Responsible Consumption, Sustainable Infrastructure, Inclusion and the Environment.

The process starts with an assessment of societal impact. If a company is making a meaningful positive contribution to advancing the UN SDGs, the sustainability of its business model will be assessed. Quantitative screening and fundamental assessment is carried out to ensure company alignment with SDGs and generation of positive societal contribution. To this end we would expect at least 70% of the assets in the portfolio (measured by issuers or by AUM) are related to the theme(s). An issuer is considered related to a theme if at least 90% of its revenue is related.

Sustainability is measured by proprietary ESG, industry and country analysis by EM investment and Sustainability teams. Validation of eligibility for investment is confirmed by the Impact Assessment Group) which consists of members from the Sustainable Investment team plus the two fund managers.

Only after it has been qualified in relation to these criteria, will it be assessed for its potential financial return and ultimate inclusion in the Emerging Markets Equity Impact portfolio.

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

Risk Considerations

The following risks may affect fund performance:

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.
Counterparty risk: 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.
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.
Emerging markets & frontier risk: Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets.
Higher volatility risk: The price of this fund may be volatile as it may take higher risks in search of higher rewards.
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.
Stock connect risk: The fund may be investing in China "A" shares via the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect which may involve clearing and settlement, regulatory, operational and counterparty risks.
Sustainability Risk: 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.

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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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