

Schroder Investment Fund – Core Insurance Linked Securities

Summary

The Sub-Fund invests:

- at least 80% of its assets in investments linked to natural catastrophe risks with an aim of reducing the negative consequences of such events, contributing to the rebuilding of economies and societies post event and hence increasing their resilience going forward;
- at least 50% of its assets in investments linked to meteorological risks with an aim of reducing the negative consequences of such events, contributing to the rebuilding of economies and societies post event and hence increasing their resilience going forward, and potentially easing the negative consequences of climate change;
- at least 5% of its assets in investments that are designed to address the unavailability of affordable insurance cover against natural catastrophes.

The sustainability score of the Sub-Fund is measured by the Investment Manager's rating system that provides an estimate of the potential societal or environmental impact that an issuer may create.

The Sub-Fund invests in securities whose value is linked to insurance loss events (insurance-linked securities) worldwide. Such securities include those that provide exposure to high-severity, low-probability (such as hurricanes and earthquakes) and low-severity, high probability (such as tornados and hail) catastrophe risks worldwide. The Sub-Fund invests in a range of instruments, including catastrophe bonds, cat-bond lites, insurance-linked notes, investments in collateralised reinsurance contracts and other (re)insurance risk instruments relating to catastrophe events.

The Sub-Fund may also apply certain exclusions. Further information on all of the Sub-Fund's exclusions is to be found further below under the "Monitoring of environmental or social characteristics" section.

The Sub-Fund invests in investments issued by issuers that have good governance practices, as determined by the Investment Manager's rating criteria. This financial product promotes environmental or social characteristics, but does not have as its objective sustainable investment. No reference benchmark has been designated for the purpose of meeting the environmental or social characteristics promoted by the financial product.

The minimum proportion of the Sub-Fund's assets used to attain the environmental or social characteristics is equal to 70%. The Sub-Fund includes investments that are treated as neutral for sustainability purposes, such as cash and Money Market Investments and derivatives used with the aim of reducing risk (hedging) or managing the Sub-Fund more efficiently. It also includes investments that are not scored by Schroders' proprietary sustainability tool and so do not contribute towards the Sub-Fund's sustainability score.

The Sub-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.

The Investment Manager's investment process is driven by proprietary bottom-up fundamental stock selection. Expertise from both the Investment team and the Sustainability team provide a diversity of idea generation and high degree of scrutiny of ideas around the expected trajectory of long term growth, ESG and sustainability characteristics.

The exclusion of certain activities, industries or groups of issuers are listed under the "Monitoring of environmental or social characteristics" section, as well as the investment limits applicable to the Sub-Fund, will be measured within the Investment Manager's portfolio compliance framework.

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.

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

Where data is not available, Schroders will engage with companies to encourage them to disclose the missing data points.

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.

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

As of 1 July 2024, the following paragraph will no longer be applicable:

The Investment Manager ensures that at least 90% of companies in the Sub-Fund's portfolio are rated against the sustainability criteria. As a result of the application of sustainability criteria, at least 20% of the Sub-Fund's potential investment universe is excluded from the selection of investments.

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.

As we aim, through engagement to increase transparency in ILS transactions, we aim to better differentiate between companies to that provide disclosure on the ultimate beneficiaries of an ILS transaction. The difficulty we face is that the further removed the transaction is from the original risk, the less granular on such ultimate beneficiaries get.

ILS investments are not directly in a company, but in a risk transfer instrument that such a company sponsors.

We also concluded that insurance solutions per se demonstrate social-economic benefits, which adds positive impact and increases overall sustainability and resilience.

Engagement with our counterparties forms part of an important aspect of our ESG strategy as we expect better transparency on what our funds ultimately support. This will allow us to differentiate better between companies with poor and good ESG performance. The introduction of a scoring matrix in our ESG assessment further supports our ESG strategy.

The engagement with the transaction sponsor is especially intense during sourcing, one of the steps in the investment process. This applies for new and existing ILS transaction sponsors. While the engagement on ESG for new sponsors would include a detailed assessment of must criteria, the process for existing ones would look into ESG-relevant changes to those criteria compared to the previous transaction.

Source: Schroders, as at February 2024. 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.

Next to our own engagement process, we started to entertain dialogues with other ILS managers that focus, e.g., through publications and SFDR Article 8 or 9 funds, on ESG as well. We believe, through cooperation and engagement, we achieve critical mass and leverage towards higher ESG relevance of ILS. This industry dialogue, also referred to as the ILS ESG Transparency Initiative, has started to show first positive results towards increased data disclosure that will support the making of investment decisions.

No sustainable investment objective

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

- Exclusions are applied to insurance-linked securities sponsored by companies on a stand-alone basis. The Sub-Fund applies certain exclusions relating to international conventions on cluster munitions, antipersonnel mines, and chemical and biological weapons. The Sub-Fund also excludes insurance-linked securities sponsored by companies that derive revenues above certain thresholds from activities related to tobacco and thermal coal, especially companies that generate at least 10% of their revenues from tobacco production, companies that generate at least 25% of their revenues from the tobacco value chain (such as suppliers, distributors, retailers and licensors), companies that generate at least 10% of their revenues from thermal coal mining and companies that generate at least 30% of their revenues from coal fired power generation. The Sub-Fund excludes insurance-linked securities sponsored by 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. In exceptional circumstances a derogation may be applied in order to allow the Sub-Fund to continue to hold an insurance-linked security sponsored by a company on Schroders' 'global norms' breach list, for example where the stated investment strategy of the Sub-Fund may otherwise be compromised.
- The Sub-Fund may also apply certain other exclusions. Further information on all of the Sub-Fund's exclusions is to be found further below in the "Monitoring of sustainable investment objective" section.

Environmental or social characteristics of the financial product

The Sub-Fund invests:

- at least 80% of its assets in investments linked to natural catastrophe risks with an aim of reducing the negative consequences of such events, contributing to the rebuilding of economies and societies post event and hence increasing their resilience going forward;
- at least 50% of its assets in investments linked to meteorological risks with an aim of reducing the negative consequences of such events, contributing to the rebuilding of economies and societies post event and hence increasing their resilience going forward, and potentially easing the negative consequences of climate change;
- at least 5% of its assets in investments that are designed to address the unavailability of affordable insurance cover against natural catastrophes.

The Sub-Fund also maintains a positive absolute sustainability score, based on the Investment Manager's rating system.

No reference benchmark has been designated for the purpose of attaining the environmental or social characteristics promoted by the Sub-Fund.

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

Investment strategy

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

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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.

The Sub-Fund invests in securities whose value is linked to insurance loss events (insurance-linked securities) worldwide. Such securities include those that provide exposure to high-severity, low-probability (such as hurricanes and earthquakes) and low-severity, high probability (such as tornados and hail) catastrophe risks worldwide.

The Sub-Fund invests in a range of instruments, including catastrophe bonds, cat-bond lites, insurance-linked notes, investments in collateralised reinsurance contracts and other (re)insurance risk instruments relating to catastrophe events.

The Sub-Fund invests:

- at least 80% of its assets in investments linked to natural catastrophe risks with an aim of reducing the negative consequences of such events, contributing to the rebuilding of economies and societies post event and hence increasing their resilience going forward;
- at least 50% of its assets in investments linked to meteorological risks with an aim of reducing the negative consequences of such events, contributing to the rebuilding of economies and societies post event and hence increasing their resilience going forward, and potentially easing the negative consequences of climate change;
- at least 5% of its assets in investments that are designed to address the unavailability of affordable insurance cover against natural catastrophes.

The Sub-Fund maintains a positive absolute sustainability score, based on the Investment Manager's rating system.

The Sub-Fund may also apply certain other exclusions. Further information on all of the Sub-Fund's exclusions is to be found further below in the "Monitoring of environmental or social characteristics" section.

The Sub-Fund invests in investments issued by issuers that have good governance practices, as determined by the Investment Manager's rating criteria.

In order to assess good governance practices, the Investment Manager analyses the management structures and tax compliance of the Sub-Fund's investments to develop an understanding of an investment through a stakeholder lens. This analysis includes, but is not limited to, seeking to ensure that board members of issuers possess necessary experience and independence and that boards of issuers are sufficiently diversified.

Due to the nature of the Sub-Fund's investments employee relations and remuneration cannot be assessed as the investments are not companies and do not have staff.

The Investment Manager may also engage with issuers or transaction sponsors held by the Sub-Fund to challenge identified areas of weakness on sustainability issues. More details on the Investment Manager's approach to sustainability and its engagement with companies are available on the website <https://www.schroders.com/en-lu/lu/individual/what-we-do/sustainable-investing/our-sustainable-investment-policies-disclosures-voting-reports/disclosures-and-statements/>.

The Sub-Fund may use derivatives with the aim of achieving investment gains, reducing risk or managing the Sub-Fund more efficiently. The Sub-Fund may also invest in money market instruments and hold cash. The Sub-Fund may, in certain circumstances and on a temporary basis, hold up to 100% of its assets in cash. In such circumstances the minimum investment limits stated above may not be adhered to by the Sub-Fund.

Where the Sub-Fund uses total return swaps, contracts for difference, repurchase or reverse repurchase transactions, the underlying consists of instruments in which the Sub-Fund may invest according to its Investment Objective and Investment Policy. In particular, total return swaps and contracts for difference may be used on a continuous basis for example by allowing the Sub-Fund to increase or decrease its exposure to insurance-linked securities in response to changing market conditions. Repurchase or reverse repurchase transactions may be used on a temporary basis to provide leverage or bridge financing to fund working capital requirements. The gross exposure of total return swaps, contracts for difference, repurchase or reverse

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Any tie includes companies with an industry tie to the excluded activity.

repurchase transactions will not exceed 35% of the Net Asset Value of the Sub-Fund and is expected to remain within the range of 0% to 20% of Net Asset Value. In certain circumstances this proportion may be higher.

The Investment Manager applies sustainability criteria when selecting investments for the Sub-Fund.

The investment decision process relies on a framework that was developed to reflect the specific characteristics of the asset class in the context of sustainability. The Investment Manager assesses investments by gathering information from offering documents and/or submission material provided by brokers and by directly engaging with transaction sponsors using a questionnaire in order to qualitatively assess an investment's suitability relative to the Sub-Fund's sustainability criteria. The transaction sponsor is the legal entity that buys protection for a portion of the risks it is exposed to in the form of insurance-linked securities and financial derivative instruments, which are issued via a fronting or transforming structure such as a special purpose vehicle (the issuer).

The risks that the Sub-Fund seeks exposure to are primarily linked to the (re-)insurance of natural catastrophe risks. Natural catastrophes are unexpected events caused by nature with geological, hydrological or meteorological origins. Geological risks are related but not limited to earthquakes or volcanic eruptions. Hydrological risks are related but not limited to floods or tsunamis. Meteorological risks are related but not limited to tropical cyclones, winter storms, severe convective storms or droughts.

The Investment Manager believes that selecting such investments can help to reduce the cost of purchasing protection against such events for individuals; reduce negative consequences of events related to natural catastrophe risk; and positively contribute to the rebuilding of economies and societies post event.

In addition, the Investment Manager believes that insurance-linked investments that cover meteorological risks can ease the potential negative consequences of climate change.

The Sub-Fund typically invests 10 to 20% (but no less than 5%) of its assets- in investments that, in the Investment Manager's opinion, are designed to address the unavailability of affordable insurance cover against natural catastrophes. These are investments that are sponsored by, but not limited to, (1) supranational financial institutions that offer financial products and policy advice to countries aiming to reduce poverty and promote sustainable development, (2) humanitarian international organisations or country sections of such organisations and (3) legal entities of a state or federal states of such that were set up by legislature to help its residents before, during and after catastrophes.

The sources of information used to perform the analysis include information provided by issuers or transaction sponsors, such as offering documents and other relevant material, as well as Schroders' proprietary sustainability tools.

The Investment Manager ensures that at least 90% of the portion of the Sub-Fund's Net Asset Value composed of investments in companies and/or private issuers, such as insurance-linked securities, is rated against the sustainability criteria. As a result of the application of sustainability criteria, at least 20% of the Sub-Fund's potential investment universe is excluded from the selection of investments.

For the purposes of this test, the potential investment universe is the core universe of issuers that the Investment Manager may select for the Sub-Fund prior to the application of sustainability criteria, in accordance with the other limitations of the Investment Objective and Investment Policy. This universe is comprised of investments providing exposure to insurance risks.

Effective as of 1 July 2024:

The Sub-Fund invests in securities whose value is linked to insurance loss events (insurance-linked securities) worldwide. Such securities include those that provide exposure to high-severity, low-probability (such as hurricanes and earthquakes) and low-severity, high probability (such as tornados and hail) catastrophe risks worldwide.

The Sub-Fund invests in a range of instruments, including catastrophe bonds, cat-bond lites, insurance-linked notes, investments in collateralised reinsurance contracts and other (re)insurance risk instruments relating to catastrophe events.

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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.

The Sub-Fund invests:

- at least 80% of its assets in investments linked to natural catastrophe risks with an aim of reducing the negative consequences of such events, contributing to the rebuilding of economies and societies post event and hence increasing their resilience going forward;
- at least 50% of its assets in investments linked to meteorological risks with an aim of reducing the negative consequences of such events, contributing to the rebuilding of economies and societies post event and hence increasing their resilience going forward, and potentially easing the negative consequences of climate change;
- at least 5% of its assets in investments that are designed to address the unavailability of affordable insurance cover against natural catastrophes.

The Sub-Fund maintains a positive absolute sustainability score, based on the Investment Manager's rating system.

The Sub-Fund may also apply certain other exclusions. Further information on all of the Sub-Fund's exclusions is to be found further below in the "Monitoring of environmental or social characteristics" section.

The Sub-Fund invests in investments issued by issuers that have good governance practices, as determined by the Investment Manager's rating criteria.

In order to assess good governance practices, the Investment Manager analyses the management structures and tax compliance of the Sub-Fund's investments to develop an understanding of an investment through a stakeholder lens. This analysis includes, but is not limited to, seeking to ensure that board members of issuers possess necessary experience and independence and that boards of issuers are sufficiently diversified.

Due to the nature of the Sub-Fund's investments employee relations and remuneration cannot be assessed as the investments are not companies and do not have staff.

The Investment Manager may also engage with issuers or transaction sponsors held by the Sub-Fund to challenge identified areas of weakness on sustainability issues. More details on the Investment Manager's approach to sustainability and its engagement with companies are available on the website <https://www.schroders.com/en-lu/lu/individual/what-we-do/sustainable-investing/our-sustainable-investment-policies-disclosures-voting-reports/disclosures-and-statements/>.

The Sub-Fund may use derivatives with the aim of achieving investment gains, reducing risk or managing the Sub-Fund more efficiently. The Sub-Fund may also invest in money market instruments and hold cash. The Sub-Fund may, in certain circumstances and on a temporary basis, hold up to 100% of its assets in cash. In such circumstances the minimum investment limits stated above may not be adhered to by the Sub-Fund.

Where the Sub-Fund uses total return swaps, contracts for difference, repurchase or reverse repurchase transactions, the underlying consists of instruments in which the Sub-Fund may invest according to its Investment Objective and Investment Policy. In particular, total return swaps and contracts for difference may be used on a continuous basis for example by allowing the Sub-Fund to increase or decrease its exposure to insurance-linked securities in response to changing market conditions. Repurchase or reverse repurchase transactions may be used on a temporary basis to provide leverage or bridge financing to fund working capital requirements. The gross exposure of total return swaps, contracts for difference, repurchase or reverse repurchase transactions will not exceed 35% of the Net Asset Value of the Sub-Fund and is expected to remain within the range of 0% to 20% of Net Asset Value. In certain circumstances this proportion may be higher.

The Investment Manager applies sustainability criteria when selecting investments for the Sub-Fund.

The investment decision process relies on a framework that was developed to reflect the specific characteristics of the asset class in the context of sustainability. The Investment Manager assesses investments by gathering information from offering documents and/or submission material provided by brokers and by directly engaging with transaction sponsors using a questionnaire in order to qualitatively assess an investment's suitability relative to the Sub-Fund's sustainability criteria. The transaction sponsor is the legal entity that buys protection for a portion of the risks it is exposed to in the form of insurance-linked securities

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Any tie includes companies with an industry tie to the excluded activity.

and financial derivative instruments, which are issued via a fronting or transforming structure such a special purpose vehicle (the issuer).

The risks that the Sub-Fund seeks exposure to are primarily linked to the (re-)insurance of natural catastrophe risks. Natural catastrophes are unexpected events caused by nature with geological, hydrological or meteorological origins. Geological risks are related but not limited to earthquakes or volcanic eruptions. Hydrological risks are related but not limited to floods or tsunamis. Meteorological risks are related but not limited to tropical cyclones, winter storms, severe convective storms or droughts.

The Investment Manager believes that selecting such investments can help to reduce the cost of purchasing protection against such events for individuals; reduce negative consequences of events related to natural catastrophe risk; and positively contribute to the rebuilding of economies and societies post event.

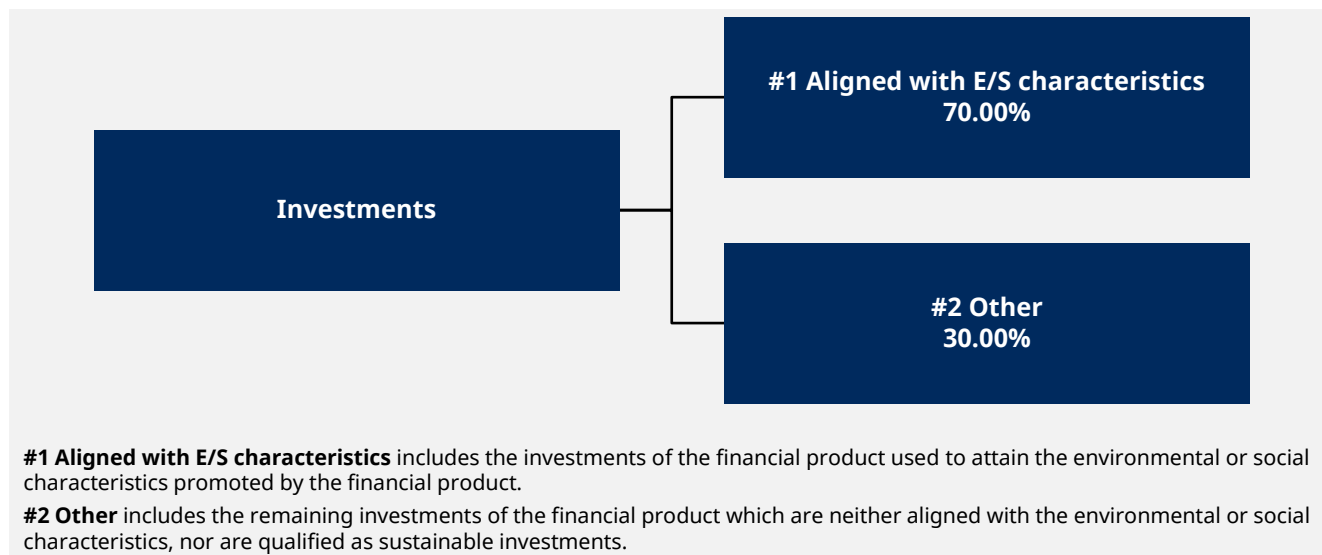
In addition, the Investment Manager believes that insurance-linked investments that cover meteorological risks can ease the potential negative consequences of climate change.

The Sub-Fund typically invests 10 to 20% (but no less than 5%) of its assets- in investments that, in the Investment Manager's opinion, are designed to address the unavailability of affordable insurance cover against natural catastrophes. These are investments that are sponsored by, but not limited to, (1) supranational financial institutions that offer financial products and policy advice to countries aiming to reduce poverty and promote sustainable development, (2) humanitarian international organisations or country sections of such organisations and (3) legal entities of a state or federal states of such that were set up by legislature to help its residents before, during and after catastrophes.

The sources of information used to perform the analysis include information provided by issuers or transaction sponsors, such as offering documents and other relevant material, as well as Schroders' proprietary sustainability tools.

Proportion of investments

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



#1 Aligned with E/S characteristics includes the minimum proportion of the Sub-Fund's assets used to attain the environmental or social characteristics, which is equal to 70%. This means assets in investments linked to natural catastrophe risks, investments linked to meteorological risks and/or investments that are designed to address the unavailability of affordable insurance cover against natural catastrophes are included within the

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minimum proportion stated in #1. The minimum proportion stated in #1 applies in normal market conditions. The actual proportion is expected to be higher.

#2 Other includes investments that are treated as neutral for sustainability purposes, such as cash and Money Market Investments and derivatives used with the aim of reducing risk (hedging) or managing the Sub-Fund more efficiently. 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 Money Market Investments and 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 Sub-Fund is measured by the Investment Manager's rating system 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 Sub-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.

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.

Exclusion Criteria

The Sub-Fund excludes certain transaction sponsors and certain risk classes from inclusion in its portfolio.

Transaction sponsors:

The Sub-Fund excludes ILS transactions that are sponsored by companies on a standalone basis:

Environmental: Companies that are active in fossil fuels extraction and production (including but not limited to oil drilling and coal mines) or power generation from oil and gas.

Social: Companies from the following sectors: Alcohol, Tobacco, Gambling, Adult Entertainment, Conventional Weapons, Civilian Firearms, and Nuclear Weapons.

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Any tie includes companies with an industry tie to the excluded activity.

Environmental exclusions

Excluded Activity

Fossil Fuels extraction and production, incl. Complete Carbon Underground 200 List

Power generation from oil and gas

Oil and gas production

Social and human rights exclusions

Excluded Activity

Alcohol and tobacco production

Gambling and adult entertainment

Weapon production

Schroders controversial weapons curated list¹

Material ESG misconduct/controversy

Excluded activity

Exclusionary criteria

UNGC list

Serious violations²

Bespoke Schroders exclusions

Excluded activity

Criteria

Schroders' 'Global Norms' Breach List

All

Risk classes

The Sub-Fund excludes certain risk classes from inclusion into its portfolio:

Social and human rights exclusions

Excluded activity

Lottery

Mortgage insurance

Life settlements

Terror on a stand-alone basis

Methodologies for environmental or social characteristics

The Sub-Fund promotes the following characteristic: it invests:

- at least 80% of its assets in investments linked to natural catastrophe risks with an aim of reducing the negative consequences of such events, contributing to the rebuilding of economies and societies post event and hence increasing their resilience going forward;

¹Full details of the criteria and company names available via the following link:
<https://www.schroders.com/en/sustainability/active-ownership/group-exclusions/>

²Serious violations of UN Global Compact – without positive manager outlook.

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- at least 50% of its assets in investments linked to meteorological risks with an aim of reducing the negative consequences of such events, contributing to the rebuilding of economies and societies post event and hence increasing their resilience going forward, and potentially easing the negative consequences of climate change; and
- at least 5% of its assets in investments that are designed to address the unavailability of affordable insurance cover against natural catastrophes.

The Sub-Fund also maintains a positive absolute sustainability score, based on the Investment Manager's rating system 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 Sub-Fund in on the Investment Manager's rating system over the previous six month period.

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

The investment decision process relies on a framework that was developed to reflect the specific characteristics of the asset class in the context of sustainability. The Investment Manager assesses investments by gathering information from offering documents and/or submission material provided by brokers and by directly engaging with transaction sponsors using a questionnaire in order to qualitatively assess an investment's suitability relative to the Sub-Fund's sustainability criteria. The transaction sponsor is the legal entity that buys protection for a portion of the risks it is exposed to in the form of insurance-linked securities and financial derivative instruments, which are issued via a fronting or transforming structure such a special purpose vehicle (the issuer).

Data sources and processing

The sources of information used to perform the analysis include information provided by issuers or transaction sponsors, such as offering documents and other relevant material, as well as Schroders' proprietary sustainability tools.

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.

Where data is not available, Schroders will engage with companies to encourage them to disclose the missing data points.

Whilst there may be some data estimation, it tends to be a marginal amount at the portfolio level with regard to our assessment of the sustainability characteristics of each company. The proportion of estimated data may vary over time.

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Any tie includes companies with an industry tie to the excluded activity.

Limitations to methodologies and data

Limitations to the Investment Manager's methodology and data mainly arise from data errors, data availability, specifically the lack of company reported data in some cases and data estimation as detailed in the section titled "Data sources and processing". Due to the range of data sources and due to combining both qualitative and quantitative elements involving a degree of subjectivity and judgement from the investment manager, we believe that these data limitations do not in aggregate materially impact our attainment of the environmental or social characteristics of the Fund.

Due diligence

The Sub-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

As we aim, through engagement to increase transparency in ILS transactions, we aim to better differentiate between companies to that provide disclosure on the ultimate beneficiaries of an ILS transaction. The difficulty we face is that the further removed the transaction is from the original risk, the less granular on such ultimate beneficiaries get.

ILS investments are not directly in a company, but in a risk transfer instrument that such a company sponsors.

We also concluded that insurance solutions per se demonstrate social-economic benefits, which adds positive impact and increases overall sustainability and resilience.

Engagement with our counterparties forms part of an important aspect of our ESG strategy as we expect better transparency on what our funds ultimately support. This will allow us to differentiate better between companies with poor and good ESG performance. The introduction of a scoring matrix in our ESG assessment further supports our ESG strategy.

The engagement with the transaction sponsor is especially intense during sourcing, one of the steps in the investment process. This applies for new and existing ILS transaction sponsors. While the engagement on ESG for new sponsors would include a detailed assessment of must criteria, the process for existing ones would look into ESG-relevant changes to those criteria compared to the previous transaction.

Next to our own engagement process, we started to entertain dialogues with other ILS managers that focus, e.g., through publications and SFDR Article 8 or 9 funds, on ESG as well. We believe, through cooperation and engagement, we achieve critical mass and leverage towards higher ESG relevance of ILS. This industry dialogue, also referred to as the ILS ESG Transparency Initiative, has started to show first positive results towards increased data disclosure that will support the making of investment decisions.

Further details on our approach to active ownership policy is publicly available:

<https://mybrand.schroders.com/m/67cc46846449900f/original/schroders-capital-private-markets-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.

Source: Schroders, as at February 2024. 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.