Schroders

European SRI Transparency Code

Schroder ISF Global Climate Change Equity

January 2020

The European SRI Transparency logo signifies that Schroders commits to provide accurate, adequate and timely information to enable stakeholders, in particular consumers, to understand the Sustainable Responsible Investment (SRI) policies and practices relating to the fund. Detailed information about the European SRI Transparency Code can be found on www.eurosif.org, and information of the SRI policies and practices of Schroder ISF Global Climate Change Equity can be found at www.schroders.lu/sustainability. The Transparency Code is managed by Eurosif, an independent organisation.

The European SRI Transparency Logo reflects the fund manager's commitment as detailed above and should not be taken as an endorsement of any particular company, organisation or individual.

Contents

Statement of Commitment

Sustainable and Responsible Investing (SRI) is an essential part of the strategic positioning and behaviour of Schroder Investment Management Limited ('Schroders'). We have been involved in SRI since 2000 and welcome the European SRI Transparency Code.

This is our third statement of commitment and covers the period 12 months from approval. Our full response to the European SRI Transparency Code can be accessed below and is available in the annual report of the retail funds and on our website.

Compliance with the Transparency Code

Schroders is committed to transparency and we believe that we are as transparent as possible given the regulatory and competitive environments that exist in the countries in which we operate. Schroders Investment Management meets the full recommendations of the European SRI Transparency Code without any exception.

January 2020

Section 1 List of funds covered by the Code

Fund name:

– Schroder ISF Global Climate Change Equity

Dominant/preferred SRI strategy (Please choose a maximum of two strategies):

– ESG integration

– Sustainability themed

Asset class:

– Actively managed, International shares

Exclusions:

– Fossil Fuels

– Cluster Munitions

– Anti-Personnel Landmines

– Nuclear Weapons

– Biological Weapons

– Chemical Weapons

– Civilian Firearms

– Depleted Uranium

– Tobacco

Fund capital as at 30 September 2019:

– USD 594.7 million

Links to relevant documents:

– KIID: https://www.schroders.com/getfunddocument/?oid=1.9.1351653

– Prospectus: https://www.schroders.com/getfunddocument/?oid=1.9.1755

– Annual report: http://www.schroders.com/getfunddocument?oid=1.9.49335

– Semi Annual report: http://www.schroders.com/getfunddocument?oid=1.9.25163

– Fund fact sheet: https://www.schroders.com/getfunddocument/?oid=1.9.143163

– Monthly Newsletter: https://www.schroders.com/getfunddocument/?oid=1.9.2409085

– Financial and non-financial reporting: http://www.schroders.com/en/lu/professional-investor/literature/legal-documents/

Section 2 General information about the fund management company

2.1 Name of the of the fund management company that manages the applicant fund

Schroder Investment Management Limited

2.2 What are the company's track record and principles when it comes to integrating SRI into its processes?

At Schroders, responsible investment principles drive our investment decisions and the way we manage funds. We see ourselves as long-term stewards of our clients' capital and this philosophy naturally leads us to focus on the long-term prospects of the companies in which we invest. We believe successful investment is intrinsically linked to identifying, understanding and incorporating the effects of environmental, social and governance (ESG) trends in our decisions and ownership.

Schroders has been incorporating ESG considerations into our fundamental research and security selection process for more than 20 years. We published our first Corporate Governance policy in 1998, followed by our Responsible Investment policy in 2001. Since then, the information and tools available to us, our resources, the depth of our expertise and our approach to integrating Responsible Investment principles has evolved, but our commitment has remained the same: to be active owners of the companies in which we invest and to reflect ESG factors as part of our overall investment process.

We have a dedicated Sustainability webpage (http://www.schroders.com/en/about-us/sustainability/) which contains the following:

- Schroders' ESG Policy
- Statement of compliance with the UK Stewardship Code
- Statement of compliance with the UN Principles for Responsible Investment
- Details of industry involvement
- Quarterly Sustainable Investment Report – Current ESG related topics and thematic research, engagements details, voting details
- Annual Sustainable Investment Report – This outlines our approach to ESG Integration, policy details, current ESG related topics and thematic research, engagements details, voting and governance details, general statistics and AUMs, details of industry involvement
- Information on screening and firm-wide exclusions
- Sustainability insights on a range of environmental, social and governance topics
- Historical voting reports

2.3 How does the company formalise its sustainable investment process?

Schroders has a global ESG policy for listed assets. This outlines our principles and practices around sustainability, and reflects our commitment to responsible investment. It covers how we integrate ESG considerations as part of the overall investment process, our engagement process and rationale, our voting policy and our core corporate governance principles when determining how to vote.

2.4 How are ESG risks and opportunities – including those linked to climate change – understood/taken into account by the company?

While ESG issues are sometimes difficult to quantify, we recognise that these factors can have a material impact on a company's performance both in the short and long term, as well as the inherent risk of investing in a company. We firmly believe that analysing a company's exposure to, and management of, ESG factors, in addition to traditional financial analysis, will enhance our understanding of a company's fair value and ability to deliver sustainable returns.

Our integration approach spans the breadth of the ownership lifecycle, from identifying trends and analysing companies, through to ownership, engagement, voting and reporting.

We believe that climate change will be a defining driver of the global economy, society and financial markets over the coming years, decades and beyond. Whether the global economy is rebuilt on less carbon intensive foundations or the temperature continues to rise, investors will be unable to avoid its impacts.

Our Sustainable Investment team produces dedicated research on the topic; our first report was in 2003 and we have published consistently since then, examining both sector-specific and portfolio level issues. Ultimately we are looking to provide tools for asset owners, portfolio managers and analysts to understand this complex issue.

In July 2017, we launched our Climate Progress Dashboard. This monitors 12 indicators to show the progress governments and industries around the world are making towards decarbonising the global economy. It compares projections made by international organisations to estimate the temperature change implied by the progress in each area. Together, they suggest that we are heading for a rise closer to 4° than the 2° commitment global leaders made in Paris in 2015. More information can be found at http://www.schroders.com/en/lu/professional-investor/featured/climate-change-dashboard/.

We have examined the extent to which company profits and investor returns could be at risk from tougher climate policies and higher carbon prices. Our Carbon Value at Risk model shows that almost half of listed global companies would face a rise or fall of more than 20% in earnings if carbon prices rose to $100 a tonne (for further details see: http://www.schroders.com/en/about-us/corporate-responsibility/sustainability/climate-progress-dashboard/carbon-var/). We have also looked at how falling demand will impact the profitability and the fate of fossil fuel producers. Our analysis shows that up to 20% of listed companies' cash flows are at risk if policies strengthen in line with political commitments (for further details see: http://www.schroders.com/en/about-us/corporate-responsibility/sustainability/climate-progress-dashboard/fossil-fuel-producers/).

We have also developed a proprietary model to help our analysts, fund managers and clients measure and manage the physical risks climate change poses. We ask "what would it cost a company to insure against physical risks caused by climate change for the remaining life of their assets?" The costs to most global companies are less than 5% of their current market value, but are higher for the most exposed companies. While smaller than the risks posed by carbon pricing or changes in demand growth, the impact is clearly significant and more certain. For further information, please see: https://www.schroders.com/en/sysglobalassets/digital/insights/2018/thought-leadership/climate-change---the-forgotten-physical-risks_final.pdf/.

2.5 How many employees are directly involved in the company's sustainable investment activity?

Schroders has an experienced and well-resourced Sustainable Investment team, which has been embedded as part of our overall investment processes for some time. The team comprises 17 dedicated ESG professionals who are responsible for ESG specialist engagement, voting and facilitating ESG integration into the investment process across teams and asset classes, ESG data management, sustainability client reporting, and product development.t. Together they have more than 160 years' combined investment experience.

2.6 Is the company involved in any responsible investment initiatives?

Yes. Schroders continues to support, and collaborate with, several industry groups, organisations and initiatives. These are important in improving sustainability standards across sectors, establishing a consistent dialogue with companies and in promoting the ongoing development and recognition of ESG within the investment industry. We also work with organisations that we are members of, and with national and regional trade associations to develop their submissions on various regulatory issues around the world.

We believe that working with peers and policy makers on ESG issues is an important activity and regularly respond to public consultations both as a firm and through our work with investor groups.

Schroders is also an active member of a number of investor groups focused on promoting ESG and dealing with specific issues or industries.

Below we provide examples of some of these important initiatives.

General Initiatives	Environmental/Climate Initiatives	Social Initiatives	Governance Initiatives
– EFAMA Responsible Investment Working Group – Principles For Responsible Investment (PRI) – UKSIF – EuroSIF – Investment Association Stewardship Committee – Investment Association Sustainability and Responsible Investment Committee – Investor Forum – Financial Reporting Council – Focusing Capital on the Long Term	– CDP Climate Change – CDP Water – CDP Forest – 'Aiming for A' investor coalition – Climate Action 100+ – Transition Pathway Initiative (TPI) – Global Real Estate Sustainability Benchmark (GRESB) – Better Building Partnerships – Paris Pledge for Action – Powering Past Coal Alliance Finance Principles	– Access to Medicine Index – Business Benchmark on Farm Animal Welfare – Coalition for Inclusive Capitalism – ShareAction Workforce Disclosure Initiative	– ICGN International Corporate Governance Network – Asian Corporate Governance Association – UK Corporate Governance Forum – Institute of Business Ethics – Eumedion

2.7 What is the total number of SRI assets under the company's management?

Schroders fully supports the following international conventions:

– 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

– The Chemical Weapons Convention (1997): prohibits the use, stockpiling, production and transfer of chemical weapons

– Biological Weapons Convention (1975): prohibits the use, stockpiling, production and transfer of biological weapons.

We will not knowingly hold any security that is involved in the production, stockpiling, transfer and use of these weapons. We do not exclude those companies whose business activities or products only have the potential to be used for these purposes, or where these activities or products have not been undertaken or created with these uses in mind. Schroders will apply this policy to all Schroders funds that we directly manage. As of 30 June 2019, Schroders managed £444.4 billion of assets globally.

We recognise that there are different approaches under the broad ESG/SRI umbrella with different definitions, goals and objectives. Across the assets that we manage, we identify whether they are Screened, Integrated and/or Sustainable. The categories are not mutually exclusive.

Screened means the fund or mandate includes negative screening beyond our firm-wide exclusions outlined above. We implement a wide range of negative screens and exclusions according to specific ethical criteria requested by our clients. As at 31 December 2018, we managed £47 billion of assets to which such ethical screens are applied.

Integrated means sustainability is a building block of the investment process. It is robust, systematic and there is a commitment to engagement and stewardship. We seek to integrate ESG considerations across all of our investment desks. As of 30 September 2019, Schroders managed £229.8 billion of integrated assets.

Sustainable means sustainability is a cornerstone of the investment process. The resulting portfolio has a strong sustainability profile, focused on generating returns that can truly be maintained over the long term. As of 30 September 2019, Schroders managed £1.7 billion of sustainable assets.

Section 3 General information about the SRI fund that comes under the scope of the Code

3.1 What is (are) the fund(s) aiming to achieve by integrating ESG factors?

We believe climate change represents a universal sustainability challenge. The theme will have broad impact across geography, sectors and industries. The impact of the theme is, by definition, multi-facetted and this is reflected within our thinking about the strategy. In relation to this strategy, we only include those companies, which through their products or services seek to contribute to a more sustainable environmental and economic future. At its very core, the Schroder ISF Global Climate Change fund looks to identify those companies that recognise the threats and embrace the challenges early, or that form part of the solution to the problems linked to climate change. This belief is reflected both implicitly and explicitly within the composition of our proprietary climate change universe and the composition of the fund.

More broadly, as an investment team we believe sustainability defines a set of characteristics that underpin the durability of a company's business model, a view which is substantially informed by the integration of our proprietary ESG analysis within our stock research. Therefore we do not think about ESG as a separate investment discipline, but rather as an integral component to the way in which we evaluate and appraise every stock that is under consideration for the fund. It is a core component of our modelling and analysis and is central to the investment decisions we make. We believe that ESG factors have a material bearing on both the alpha potential of a stock and the risks associated with owning the stock. Our analysis seeks to understand the strength of a company's ability to operate and pressures that could be exerted on the company which might affect future returns.

3.2 What internal or external resources are used for ESG evaluation of the issuers who make up the investment universe of the fund(s)?

The Schroders' Global Climate Change strategy is managed by the Global and International Equity team. This team manages a range of mainstream global equity strategies alongside a number of sustainable and thematic strategies. All of these strategies adopt the same overarching philosophy and process. It should be noted, however, that the climate change strategy is the specific responsibility of the sub-group - the Climate Change team.

Members of the broader Global and International Equity team alongside representatives from Schroders' Sustainable Investment team, combine to create the Climate Change team led by Simon Webber. He is supported by Global Sector Specialists (GSS) Dan McFetrich and Isabella Hervey-Bathurst and two Climate Change legislation and policy experts from the Sustainable Investment team Andrew Howard and Marc Hassler.

Most research material that we use for ESG evaluation is produced internally, with external sources providing a secondary input into the process.

The Global and International Equity team's Global Sector Specialists (GSS) build on the ESG analysis conducted across Schroders' equity research platform by more than 100 equity analysts, and provide most of the information and insight necessary to form a view about ESG factors for companies being considered for this fund. The GSS' view is consolidated in an ESG assessment and reflected in a score for each company.

The research, analysis and idea generation from the Global and International Equity team is utilised by the Climate Change team and are further debated in order to determine whether the stock is suitable for the climate change strategy.

In addition, the Climate Change team conduct their own research where stocks of interest are not under the active coverage of the GSS or analysts elsewhere in the firm or if they feel the climate change angle requires further investigation.

Our 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.

In addition, we obtain relevant climate change materials from a variety of sources which include the Carbon Disclosure Project, Carbon Action Initiative, Carbon Tracker Initiative, brokers and industry publications.

Third party research is used by the team as a secondary consideration, and often provides a source of challenge or endorsement for our proprietary view. It serves also to indicate where consensus sits, given that a majority of our competitors systematically utilise third party research conclusions and ratings within their processes. Sector analysts also use third-party research to support their assessment of ESG issues when analysing companies. We currently subscribe to the following external ESG research providers: MSCI ESG research, Bloomberg, EIRiS, Thomson Reuters Asset4 and CDP. In addition, we subscribe to Institutional Shareholder Services (ISS) and Association of British Insurers' Institutional Voting Information Service for our proxy voting research.

3.3 What ESG criteria are taken into account by the fund(s)?

Given the explicit focus on climate change for this fund, a detailed assessment of environmental factors is incorporated via the construction of our proprietary investment universe (please refer to 3.5) to screen for companies whose long term outlook we believe will be positively impacted by efforts to mitigate and adapt to climate change. In addition, an assessment of ESG factors is fully integrated into our investment approach and is integral to our appraisal and evaluation of potential candidates for the fund. We believe that the ESG performance of companies is inextricably linked to the delivery of long-term shareholder value. Our ESG analysis seeks to evaluate the materiality and impact of a range of ESG factors on the sustainability of future earnings growth and as potential risk factors that may affect a company's valuation.

We recognise the importance of companies respecting and protecting human rights, ensuring decent working conditions and upholding labour rights, promoting greater environmental responsibility and having robust anti-corruption measures and practices in place. Through our ESG integration and active ownership process we take into consideration how companies are interacting with all their stakeholders (customers, suppliers, environment, regulators, employees and communities) and the contribution this might have (both negative and positive) to their long-term success.

We also utilise an innovative and proprietary framework for calibrating fundamental stock risk and helping determine position sizes. This framework ensures a dynamic, systematic and forward-looking approach to the appraisal of financial and non-financial risks of owning a stock. ESG factors, therefore, are specifically scored and integrated within our risk framework, alongside aspects such as management quality and competitive and strategic positioning as part of a sustainability and quality score that comprises 45% of the total risk score.

Stock weightings reflect the portfolio managers' risk-adjusted return expectations and fundamental conviction level. Stocks with a higher relative upside, lower risk profile and higher liquidity will receive higher active weights in the portfolio. The fundamental risk framework provides an expansive tool to help enhance portfolio downside protection and performance consistency.

We examine every company in which we invest or are considering for the portfolio across these elements, focusing on those aspects that are most relevant to business and its ability to deliver sustainable growth. Although we draw on corporate disclosures, our assessment is primarily based on qualitative analysis and a deep understanding of the company and its relationship with its stakeholders.

3.4 What principles and criteria linked to climate change are taken into account in the fund?

We believe that climate change is at the heart of environmental and economic sustainability. It has potentially dramatic implications for the world as we know it, and there is increased urgency in which carbon emissions need to be reduced. This will have profound effects on companies across geographies and industries, affecting revenues, costs, competitive advantage and profitability. Arguably, climate change is the most important sustainability challenge facing the world today.

As a climate change fund, environmental considerations are the key focus. We take a forward-looking, comprehensive view and assess all aspects of a company's environmental footprint, resource intensity and efficiency. When assessing the significance of climate change on the long-term business outlook for a company, we consider the impact of a number of factors on expected revenue growth, operating margin and capital intensity of the company. More specifically the fund seeks to understand and model the risks and opportunities arising from the transition to a lower carbon economy, for example, changes in the power mix, efforts to improve energy efficiency and sustainable transport. The managers also seek to understand the physical risks posed by increasingly extreme and unpredictable weather patterns, for example, pressures on agricultural production, resource intensity and the impact of climate-related catastrophes. These aspects have a material effect on revenues, costs and earnings as well as balance sheet impairment.

We believe that companies that fail to adapt or improve their resource efficiency will be materially disadvantaged due to the imposition of additional costs and ultimately, the long term viability of their businesses. This belief is implicitly and explicitly reflected in our ESG analysis, the composition of our proprietary universe and the constituents of the fund.

As a consequence, companies that generate significant revenues from fossil fuels (more than 5%) will fall outside the remit of this fund. The fund also leverages detailed work conducted by two experts on climate change legislation and policy as well as the Schroders dedicated Sustainable Investment team in the area of climate change, which informs our view.

3.5 What is the ESG analysis and evaluation methodology of the fund manager/fund management company (how is the investment universe built, what rating scale is used etc.)?

In constructing our proprietary Climate Change Universe, the Schroder Global Climate Change team has undertaken a fundamental analysis of every major sector of the economy to screen for companies whose long term outlook we believe will be positively impacted by efforts to mitigate and adapt to climate change. We employ a forward-looking comprehensive view toward evaluating businesses and believe overly simplistic measures such as carbon foot printing often fail to capture indirect emission measures which can distort the true value creation and value at risk. Our comprehensive investment universe is made up of around 600 stocks across developed and developing markets from which to select our best ideas. This broad investment universe enables us to always focus on great investment ideas, not just the stocks or themes currently in favour.

When assessing the significance of climate change on the long-term business-outlook for a company, we analyse a number of factors which include but are not limited to:

- If the company has significant direct industry exposure to climate change trends (mitigation - reducing greenhouse gas (GHG) emissions through energy efficiency, renewable power, and cleaner vehicles or adaptation - those that are preparing for the impacts of climate change, for example water stress, coastal flooding, community health issues, or supply chain disruptions, among other issues)
- The proportion of business segments that are potentially exposed to climate change trends
- If the company has significant investment and R&D spending related to the transition to a lower carbon economy
- A product portfolio that takes into account the physical and transition risks posed by climate change

From this universe of around 600 companies, only the highest conviction stock ideas make it into the portfolio, and we are not afraid to exclude whole sectors if they become overvalued or if we don't think they are sustainable. By design, but also through an explicit exclusion screen, stocks which generate significant revenues from fossil fuels (more than 5%) are not included within the investible universe. The existing universe is reviewed to ensure constituents continue to meet the stated criteria and potential candidates for addition are discussed and agreed.

ESG is integral to the way the Global and International Equity team appraise the risk-adjusted returns of any stock that we are seeking to analyse. As previously mentioned our approach to ESG analysis is based on the view that as long-term investors it is important to appraise financial and non-financial factors when analysing a company and its stock. We believe that the ESG performance of companies is inextricably linked to the delivery of long-term shareholder value. Our ESG analysis seeks to evaluate the materiality and impact of a range of ESG factors on the sustainability of future earnings growth and as potential risk factors that may affect a company's valuation.

As part of our assessment of the fundamental risk of owning each company we analyse a number of factors, weighted as outlined below, resulting in a single numeric risk score. We assign a formal ESG score for each stock as part of this fundamental risk analysis. Each company is scored from 1 to 5, with 1 indicating strong ESG positioning and 5 indicating very poor governance / ESG performance.

Risk constituents and weights:

– 45% Leverage

– 45% Quality and Sustainability Assessment

– 10% Country Risk

Risk scores are dynamic and continually reassessed as part of the rigorous monitoring and re-appraisal of stocks held in client portfolios. The sizing of stock positions within the portfolio is a function of upside potential, downside risk and level of conviction. Our ESG assessment is therefore an important consideration in determining the weights of stocks within the portfolio.

3.6 How often is the ESG evaluation of the issuers reviewed? How are any controversies managed?

Our appraisal of ESG is dynamic. News flow, data or insights from company meetings will be immediately considered both in terms of how they affect a company's financial and non-financial outlook. Any changes will be immediately reflected in our assessment and notes accompanying any change will be available to analysts and fund managers via Schroders' proprietary research portal.

In the context of the fund's holdings, or those being considered for inclusion within our proprietary climate change universe, the Global Climate change team meet monthly to discuss, amongst other things, the existing universe to ensure constituents continue to meet the stated criteria. Potential candidates for addition or removal are also discussed and agreed. Changes to the ESG score by the Global and International Equity team's Global Sector Specialists are also discussed as part of the weekly portfolio construction team meetings. While it would be highly unusual to take a contradictory view to that of the relevant GSS, the team can have an independent view of the sustainability characteristics of each name given the thematic nature of the fund.

Although the fund's sustainability and ESG characteristics are based on proprietary research and analysis, third-party ESG ratings, and changes to these ratings, are also reviewed on a quarterly basis.

While it should be anticipated that the risk of controversy relating to stocks in the fund is significantly reduced in light of the team's ESG and sustainability assessment, it is impossible to remove the risk of future controversy entirely. In instances where a controversy occurs for a stock owned by the portfolio, the stock and related issue would be immediately investigated.

Our Sustainable Investment team acts as a central point of liaison for analysts and fund managers across Schroders who may have exposure to the company in a variety of instruments. Our ESG specialists are responsible for assessing the impact of the incident, drawing on a wide body of information from direct contact with the company to insights gained from our Data Insights Unit. Together with analysts and fund managers, they will agree a programme of engagement to understand why the incident occurred, and what remedial steps have been/will be taken to prevent the incident from reoccurring. In the context of this fund, the Global Climate Change team will discuss the controversy and evaluate whether the company's response is appropriate. As lead portfolio manager, Simon Webber ultimately has responsibility for assessing the impact of controversies on the fund and necessary or warranted portfolio action.

Section 4 Investment process

4.1 How are the results of the ESG research integrated into portfolio construction?

ESG analysis affects every aspect of our stock selection process. Our analysts focus their ESG analysis on the aspects that are material to the investment case, and this of course includes future opportunities and valuation as well as the risk profile. Our assessment of ESG factors helps inform our modelling of future revenue growth, capital investment decisions and the durability of a company's business model. It also directly affects the discount rate and valuation multiples that we are prepared to pay for stocks. So as well as being a direct input into the risk framework and risk profile we have for a company (which drives position sizing), ESG is a part of every aspect of the investment decision making process.

In addition, we apply the following stock exclusions when constructing the portfolio:

	Hard Exclusions	
Exclusion Type	Involvement	Revenue threshold
Fossil Fuels	Thermal Coal	>=5%
	Oil sands/ tar sands	>=5%
	Oil and Gas	>=5%
	Shale oil	>=5%
Tobacco	Tobacco	>=10%
Weapons	Controversial weapons (Cluster, APMs, biological and chemical)	>=0%
	Depleted uranium weapons	>=0%
	Nuclear weapons	>=0%
	Military weapons	>=10%
	Civilian firearms	>=10%

Source: Schroders as at 30 September 2019

4.2 How are criteria specific to climate change integrated into portfolio construction?

As per our response to questions 3.5 and 3.4, it is a central tenet of the team that the world needs to transition to a low carbon economy. Companies that fail to adapt or improve their resource efficiency will be materially disadvantaged due to the imposition of additional costs and ultimately, the long term viability of their businesses. The fund, by design, aims to capture opportunities around the world by investing in only those companies we believe will be positively impacted by efforts to transition to a low carbon economy.

This belief is both implicitly and explicitly demonstrated through the construction of our proprietary universe, our ESG assessment and our exclusion list, outlined in question 4.1. The fund looks for opportunities across a global and diverse opportunity set, providing a well-diversified portfolio of different companies across sectors linked to climate change.

Our investment process is built around five key themes: energy efficiency, sustainable transport, agricultural productivity, clean energy and low carbon fuel transition, as shown below.

	Theme	Industry examples
	Sustainable Transport	Railroad infrastructure, electric, hybrid and natural gas transport
	Environmental Resources	Water infrastructure, agricultural productivity and forestry
	Clean Energy	Nuclear power, renewable energy, grid infrastructure
	Low-Carbon Leader	Low-carbon disruptors, low-carbon industry leaders
	Energy Efficiency	Lightweight materials, lighting, smart grid, test measurement and controls

As a consequence, the fund is unlikely to have material exposure to the energy sector or stocks that generate significant revenues from fossil fuels (more than 5%).

The Global Climate Change team frequently meet and engage with companies that are of particular interest. This in turn directly informs our views on their preparedness for the climate transition. We also leverage thematic research and proprietary tools from the Schroders' Sustainable Investment team, to better understand and build a more detailed and accurate picture of how companies and industries will evolve and adapt as part of a low-carbon economy. These have been detailed below.

Climate Progress Dashboard

The Climate Progress Dashboard was created to help Schroders' analysts, fund managers and clients track the scale of climate action required and the progress being made. Meeting global leaders' commitments to limit temperature rises to 2°C will require action across a range of areas, by a range of stakeholders.

The Climate Progress Dashboard is based on examining the difference between the IEA current policies scenario and a 2 degree scenario (2DS). The 2DS analysis developed by the IEA has been developed to include a lot of associated work on implications for carbon prices, renewables investment etc. We use that analysis both qualitatively and quantitatively. That scenario analysis provides a platform from which we can build more detailed investment risk models. For example, by examining the implied trajectory of oil, gas and coal demand through 2050, based on the IEA's analysis, we can assess the potential risks to producers of those products under a range of assumptions for industry disciplines, and the associated implications for the values of individual companies.

By comparing the incremental impact of a two degree transition on the value of investments, relative to a current policies baseline in which no further policy action is forthcoming, our analysts are able to understand the exposure of different industries to components of a 2 degree world.

We incorporate these tools and analysis into our investment processes. This may result in changes to views of valuations, business sustainability, future profitability and investment risk.

Carbon Value at Risk

Carbon Value at Risk (Carbon VaR) is another tool developed by the Sustainable Investment team to help our fund managers and analysts better understand how carbon pricing could affect company profitability. It estimates the impact on companies' earnings of raising carbon prices to $100 a tonne, based on their current emissions, business models, cost structures and elasticity of demand.

The Carbon Value at Risk model allows the team to consider the impacts through a range of different lenses. At the sector level, the model shows the extent to which companies are impacted (positively or negatively) from rising carbon prices. Analysts may overlap their fundamental views with the outputs of our Carbon VaR model, generating insights into how carbon pricing may play out as an investment risk across the board. As a risk management tool at the portfolio level, the model may be used as a standalone measure or comparatively across portfolios or against market benchmarks. The model provides the necessary information for fund managers to form a view of portfolio risk, as well as the ability to look into the details within sectors and industries that contribute to that risk. At a more granular level, fund managers can also see which companies are likely to be most severely impacted.

4.3 How are the issuers that are present in the portfolio, but not subject to ESG analysis evaluated (not including mutual funds)?

All holdings that are present in the portfolio are subject to ESG analysis.

4.4 Has the ESG evaluation or investment process changed in the last 12 months?

Schroder ISF Global Climate Change Equity fund was launched in June 2007 and has maintained a consistent process since inception. There have been no significant changes to the investment process in the last 12 months.

4.5 Is a part of the fund(s) invested in entities pursuing strong social goals/social enterprises?

While the application of the fund's philosophy and process is likely to result in a positive skew towards companies that actively take their stakeholders, and society as a whole, into account, positive social impact is not the primary objective of the strategy.

4.6 Does (do) the fund(s) engage in securities lending activities?

No, the fund does not engage in securities lending.

4.7 Does (do) the fund(s) use derivative instruments?

As stated in Appendix I of the Schroder ISF prospectus, derivatives (including futures, swaps and forwards) may be used for the purpose of efficient portfolio management of the fund's assets or used to provide protection against exchange rate risks under the conditions and within the limits laid down by law, regulation and administrative practice.

4.8 Does (do) the fund(s) invest in mutual funds?

The fund does not invest in mutual funds.

Section 5 ESG controls

5.1 What internal and/or external control mechanisms are in place to ensure compliance of the portfolio with the ESG rules on managing the fund as defined in section 4?

As previously mentioned the Global Climate Change team have undertaken a fundamental analysis of every major sector of the economy in constructing our investment universe to determine those companies whose long-term business outlook, we believe, will be positively impacted by efforts to mitigate or adapt to climate change. This innovative and lateral approach to our assessment of the theme capturing implications across a broad range of sectors and across the market cap spectrum, results in a proprietary universe of around 600 stocks from which to select best ideas.

Every month our Global Climate Change team meet to discuss important developments in climate change, interesting topics for research and the climate change universe. The existing universe of stocks is reviewed to ensure constituents continue to meet the stated criteria and potential candidates for addition are discussed and agreed. This is the primary responsibility of the two climate change policy and legislation experts who are a part of the Schroders dedicated Sustainable Investment team and are able to provide independent oversight. Any stock vetoed by any member of the Global Climate team will not make into the proprietary investable universe. The universe documents the key climate change drivers for every stock in the universe providing a clear audit trail and mapping of stocks to climate change.

In addition every week the Global Climate Change team meet to discuss potential investments being considered for the fund. The team discuss new stock ideas and potential sell candidates. They also review position sizes, risk and review existing holdings to assess if stocks in the portfolio still meet the fund's sustainability criteria, corporate performance (financial and non-financial) and set objectives for longer term engagement.

It is important to emphasise that challenge and debate is not confined to the portfolio meetings and informal discussion takes place continually as the team sit close together in an open plan environment.

If we believe that a company has deteriorated in our assessment, for example climate change ceases to be a significant driver for the business outlook, we would remove the stock from our investment universe or portfolio.

The investment team uses Aladdin as their global compliance monitoring system. The Aladdin platform combines sophisticated risk analytics with comprehensive portfolio management, trading and operations tools on a single platform to enable informed decision-making, effective risk management, efficient trading and operational scale.

Exclusions are coded into Aladdin 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 Portfolio Compliance team within the independent Investment Risk function.

The data in Aladdin 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. Users of Aladdin are able to build customised reports to focus on specific aspects of the portfolio.

Section 6 Impact measures and ESG reporting

6.1 How is the ESG quality of the fund(s) assessed?

The fund's ESG characteristics are assessed in a number of ways:

1. The fund's third-party ESG characteristics are routinely monitored relative to the benchmark based on a recognised and independent assessment. Although the stocks are not selected for the fund based on third-party ESG research – given the arguable shortcomings of such measures – we generally expect to observe a positive skew based on third party measures of ESG. In this context, the investment desk monitors MSCI ESG ratings (overall and its subcomponents) accessed via Style Research. Using the MSCI ESG Overall rating, style research calculates a market capitalisation weighted average factor for the fund which is compared to the market capitalisation weighted factor of the benchmark resulting in a z-score. This will be monitored on an ongoing basis. Any major differences will be investigated and portfolio actions would be considered.
2. The distribution of the ESG scores ascribed to the fund's holdings by the team's Global Sectors Specialists (as a component of the team's proprietary fundamental risk framework) are benchmarked against the distribution of ESG scores for all stocks under active research coverage by the Global and International Equity team. We expect the distribution of the fund to exhibit a persistent skew to strong ESG scores.

6.2 What ESG indicators are used by the fund(s)?

As mentioned in our answer to question 3.3, given the explicit focus on climate change for this fund, a detailed assessment of environmental factors is incorporated via the construction of our proprietary investment universe to screen for companies whose long term outlook we believe will be positively impacted by efforts to mitigate and adapt to climate change.

When assessing the environmental credentials of a stocks we look to analyse:

- If the company has significant direct industry exposure to climate change trends (mitigation - reducing greenhouse gas (GHG) emissions through energy efficiency, renewable power, and cleaner vehicles or adaptation - those that preparing for the impacts of climate change, for example water stress, coastal flooding, community health issues, or supply chain disruptions, among other issues)
- The proportion of business segments that are potentially exposed to climate change trends
- If the company has significant investment and R&D spending related to the transition to a lower carbon economy
- A product portfolio that takes into account the physical and transitional risks posed by climate change

Alongside assessing the environmental factors for this fund, the team also leverage the ESG analysis conducted by the Global and International Equity team's Global Sector Specialists (GSS) and Schroders' equity research platform of more than 100 equity analysts. This provides the majority of the information and insight necessary to form a view about ESG factors for companies being considered for this fund. The GSS' view is consolidated in an ESG assessment and reflected in a score for each company. As part of this analysis we look to assess how companies are interacting with all their stakeholders. Our assessment includes but is not limited to understanding if companies are 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.

In addition quantitative and measurable metrics are maintained across each of the categories (detailed in 6.3. below) to demonstrate the sustainability/ESG characteristics of the fund.

6.3 What communication resources are used to provide investors with information about the SRI management of the fund(s)?

Please find below a list of documents we produce to provide investors with information about the SRI approach of the fund:

Monthly Investment Report which includes:

- Market review
- Portfolio and benchmark performance
- Explanation of the factors contributing to the portfolio's performance, at the sector and individual stock level
- Climate change news and policy developments
- Climate change thematic insights
- Portfolio activity
- Fund positioning, including the allocation to the various themes
- Outlook

Quarterly sustainability report, which includes:

- Climate portfolio measures
- Environmental performance measures
- Social performance measures
- Human rights performance measures
- Governance performance measures
- Most significant engagements by topic
- Votes cast with or against management

Full fund holdings are also available upon request subject to NDA agreements.

As mentioned earlier, Schroders has a dedicated Sustainability webpage (http://www.schroders.com/en/about-us/sustainability/) which contains the following:

- Schroders' ESG Policy
- Statement of compliance with the UK Stewardship Code
- Statement of compliance with the UN Principles for Responsible Investment
- Details of industry involvement
- Quarterly Sustainable Investment Report
- Annual Sustainable Investment Report
- Information on screening and firm-wide exclusions
- Sustainability insights on a range of environmental, social and governance topics
- Historical voting reports

6.4 Does the fund management company publish the results of its voting and engagement policies? If so, please include links to the relevant activity reports.

Yes. We believe that clear and ongoing communication to clients and other stakeholders on our ESG and stewardship activities is important. We publicly report on our engagement and voting activities in our annual and quarterly Sustainable Investment reports, and include case studies. We also publicly disclose our global voting activity.

Schroder ISF Global Sustainable Growth: Risk Factors
The following risks may affect fund performance. China country risk: Changes in China's political, legal, economic or tax policies could cause losses or higher costs for the fund. Counterparty risk: The counterparty to a derivative or other contractual agreement or synthetic financial product could become unable to honour its commitments to the fund, potentially creating a partial or total loss for the fund. Currency risk: The fund can be exposed to different currencies. Changes in foreign exchange rates could create losses. Currency risk / hedged share class: Changes in exchange rates will affect the returns on your investment. The aim of this euro hedged share class is to provide you with the performance returns of the fund's investments by reducing the effects of exchange rate fluctuations between euro and the fund's base currency US dollar. Derivatives risk: A derivative may not perform as expected, and may create losses greater than the cost of the derivative. Emerging markets & frontier risk: Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty and operational risk. Equity risk: Equity prices fluctuate daily, based on many factors including general, economic, industry or company news. Liquidity risk: In difficult market conditions, the fund may not be able to sell a security for full value or at all. This could affect performance and could cause the fund to defer or suspend redemptions of its shares. Operational risk: Failures at service providers could lead to disruptions of fund operations or losses.

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Subscriptions for shares of the Company can only be made on the basis of its latest Key Investor Information Document and prospectus, together with the latest audited annual report (and subsequent unaudited semi-annual report, if published), copies of which can be obtained, free of charge, from Schroder Investment Management (Luxembourg) S.A.
An investment in the Company entails risks, which are fully described in the prospectus.
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