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 Sustainable Multi-Asset Income 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.
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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 fourth 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.

May 2020
Section 1  List of funds covered by the Code

Fund name:
– Schroder ISF Sustainable Multi-Asset Income

Dominant/preferred SRI strategy (Please choose a maximum of two strategies):
– ESG integration
– Best-in-class investment selection

Asset class:
– Actively managed, multi-asset income

Exclusions:
The Sustainable Multi-Asset Income Fund excludes companies engaged in prohibited activities. A negative screen is applied to every holding in the portfolio. These exclusions are summarised under environmental, social and governance (ESG) below:

– **Environmental**: Thermal coal extraction and production, Unconventional oil and gas extraction and production, Conventional oil and gas extraction, Uranium nuclear mining revenues, Nuclear power generation revenue, Thermal coal power generation revenue, Utility oil and coal power generation, Utility coal power generation, Utility oil and gas power generation, Utility nuclear power generation.
– **Social**: Alcohol; Tobacco; Gambling; Adult entertainment; Civilian firearms; Weapons; Nuclear weapons; Controversial weapons.
– **Governance**: Companies failing to comply with United Nations Global Compact principles.

Please refer to questions 4.1 for full details on the exclusions.

Fund capital as at 31 March 2020:
The fund launched on 21 January 2020. As of 31 March 2020, fund capital was £14.3 million (€17.0 million /$18.8 million).

Links to relevant documents:
– KIID: https://www.schroders.com/en/lu/professional-investor/literature/download-literature/
– Prospectus: https://www.schroders.com/getfunddocument/?oid=1.9.1755
– Fund fact sheet: We do not have a fund factsheet since the fund was launched January 2020. The first factsheet will be published as of 30 April 2020.

1 Please note this fund launched on 21 January 2020 and whilst the KIID has not been published online, we expect it to be published soon.
Section 2  General information about the fund management company

2.1  Name 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 through use of our proprietary ESG analysis tools.

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 https://www.schroders.com/en/about-us/corporate-responsibility/sustainability/climate-progress-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 21 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. Together they have more than 200 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.

<table>
<thead>
<tr>
<th>General Initiatives</th>
<th>Environmental/Climate Initiatives</th>
<th>Social Initiatives</th>
<th>Governance Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>EFAMA Responsible Investment Working Group</td>
<td>CDP Climate Change</td>
<td>Access to Medicine Index</td>
<td>ICGN International Corporate Governance Network</td>
</tr>
<tr>
<td>Principles For Responsible Investment (PRI)</td>
<td>CDP Water</td>
<td>Business Benchmark on Farm Animal Welfare</td>
<td>Asian Corporate Governance Association</td>
</tr>
<tr>
<td>UKSIF</td>
<td>CDP Forest</td>
<td>Coalition for Inclusive Capitalism</td>
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</tr>
<tr>
<td>EuroSIF</td>
<td>‘Aiming for A’ investor coalition</td>
<td>ShareAction Workforce Disclosure Initiative</td>
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<tr>
<td>Swiss Sustainable Finance</td>
<td>Climate Action 100+</td>
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<tr>
<td>Responsible Investment Association Australasia (RIAA)</td>
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<tr>
<td>Investment Association Stewardship Committee</td>
<td>Global Real Estate Sustainability Benchmark (GRESB)</td>
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<tr>
<td>Investment Association Sustainability and Responsible Investment Committee</td>
<td>Better Building Partnerships</td>
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<td>Investor Forum</td>
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<td>Financial Reporting Council</td>
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</tr>
<tr>
<td>Focusing Capital on the Long Term</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

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

Schroders fully supports the following international conventions:
- 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 31 December 2019, Schroders managed £500.2 billion (€590.3 billion/$662.6 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 2019, we managed £69 billion (€82 billion/$92 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 31 December 2019, Schroders managed £300 billion (€354 billion/$397 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 31 December 2019, Schroders managed £2.6 billion (€3.1 billion/$3.4 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?

The fund aims to provide an income of 3-5% per annum and deliver a superior sustainability profile, with a meaningful improvement in carbon intensity and Carbon Value at Risk (Carbon VaR), relative to a 30% passive global equity/70% passive global credit index. It does this by investing in a diversified range of securities that meet our ESG criteria. These securities include equities, credit, government bonds, emerging market debt, hybrids, green bonds and alternatives. Sustainability objectives have become increasingly important to our clients who need an attractive, steady income stream. Single asset classes focused on sustainability may struggle to deliver the desired income goals. By employing a multi-asset approach that invests across asset classes and regions, we believe we are able to improve the odds for clients to achieve both their sustainability objectives and a steady income stream.

The fund challenges the notion that if you are investing sustainably, you have to forgo income. Traditional methods of income investing rely on high yielding sectors like energy and utilities that are typically not ESG friendly. What’s unique about our strategy is that we do not need to rely on any asset class or sector. We take a bottom up approach to identify high yielding sustainable securities across the investment universe.

The fund favours investments that screen positively on ESG measures and avoids investments that screen poorly, relative to a 30% passive global equity/70% passive global credit index. We use our proprietary ESG tools such as SustainEx and Carbon VaR to tilt the portfolio towards companies and sovereigns with attractive ESG scores.

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)?

As described in question 3.1, ESG analysis is at the heart of our investment process. We use a number of proprietary ESG tools developed across Schroders to assess the investment implications of ESG factors at the top-down asset allocation level and the bottom-up security selection level. The Multi-Asset Income team use these proprietary ESG tools to define the sustainable investment universe (please refer to questions 3.5 and 4.1 for details on how the universe is defined). The fund invests directly in sustainable tailor made solutions constructed using this sustainable universe, which are either managed by the Multi-Asset Income team or created in collaboration with the specialist equity or credit teams across Schroders, using the same suite of tools.

Examples of how we use our proprietary ESG tools are detailed below:

- **SustainEx** allows us to assess and compare the social and environmental cost of a companies’ activities relative to the industry average. We use SustainEx to evaluate the ESG impacts on price multiples and earnings for key equity markets and sectors as part of our global multi-asset research platform. We also use SustainEx as a key input in the portfolio construction process to refine the corporate investment universe. We screen for companies with favourable SustainEx scores relative to industry peers, in particular we exclude companies in the bottom 10 percentile of the industry group.²

- **Quantitative Equity Product (QEP) governance** assesses business quality by capturing material areas including risks to shareholders, dividend policy, accounting red flags, business oversight and corruption & instability. The model ranks each company from 0 percentile (best) to 100 percentile (worst). For equities, the Multi-Asset Income team apply the QEP governance score to positively filter companies ranked within the 75 percentile on QEP governance but filtered out by SustainEx.

- **Carbon Value at Risk** quantifies how companies’ profitability would be impacted if carbon prices rise to $100 a tonne. We also use Carbon VaR as an input to our optimisation process for equities in order to favour companies with better Carbon VaR.

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Country Sustainability Dashboard aims to provide a structured lens through which to analyse the sustainability of sovereign GDP growth. By assessing the ESG risks and opportunities that have historically driven growth, as well as those that may be influential in the future, it aims to provide investors with a long-term view of countries’ GDP growth as well as an indication as to whether the market is pricing in country sustainability factors across various asset classes. As part of our global multi-asset research platform, the government bond research group use the country risk sustainability dashboard as one of the inputs to the sovereign sustainability ranks. The fund excludes countries ranked in the bottom quartile from the investment universe.

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.

We also 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)?

We incorporate ESG criteria into the investment process in a number of ways:

- **ESG integration**: ESG considerations are integrated into the multi-asset top-down research process. We analyse the long-term implications of ESG factors on asset class returns and monitor how risks evolve. For example, we have incorporated climate change into our 30 year long run asset return forecasts through our research and we use these adjusted return forecasts in our portfolio construction optimisation.

- **ESG screening of the entire portfolio**: We exclude companies engaged in prohibited activities and sovereigns that score poorly on a range of sustainability metrics. Details of the negative screening are provided in question 4.1.

- **Best in class**: We use our proprietary ESG tools described in question 3.1 to tilt the portfolio towards companies and sovereigns with attractive ESG scores. To identify best in class ESG investments, one of the tools we use is SustainEx which combines measures of both the harm companies can do and the good they can bring to arrive at an aggregate measure of each firm’s social and environmental impact. SustainEx covers a range of activities undertaken by companies that generate social and environmental costs and gains, and these are grouped broadly into five stakeholder areas: environment, governments, customers, employees, and communities, as shown in the chart below. We tilt our portfolio towards those companies which score most attractively.

**Mapping impacts across stakeholders**

![ESG Impact Chart](image-url)

Source: Schroders. Note: Some impacts are combined to aid readability.
- **Positive transitions and ESG themes:** Alongside the screens, the fund will also allocate to companies with improving ESG scores or those that demonstrate leading sustainability practices. The fund will also make investments in projects or themes that are aligned to the United Nations Sustainable Development Goals (UN SDGs) with attractive diversification properties.

- **Active engagement:** We will monitor the engagement and voting activity that takes place in relation to the underlying holdings of the fund in partnership with the Schroders’ Sustainable Investment team, to ensure we are driving ESG improvements at the underlying holding level.

### 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. The fund seeks to understand the risks and opportunities arising from the transition to a lower carbon economy, as well as the physical risks posed by increasingly extreme and unpredictable weather patterns.

At the heart of our process, climate change is incorporated in our 30 year long run asset return forecasts. To adjust for climate change we have a three step process. The first step is a focus on what happens to output as temperatures rise, which we refer to as the ‘physical cost’ of climate change. The second considers the economic impact of steps taken to mitigate those temperature increases, or the ‘transition cost’. This second step is slightly more complicated, in that there are a range of possible transition scenarios. Finally, we adjust for the effects of stranded assets. This is where we take account of the losses incurred where oil and other carbon based forms of energy have to be written off, as it is no longer possible to make use of them, such that they are left in the ground. We construct our portfolio optimising using these 30 year long run asset return forecasts adjusted for climate change.

Recognising the importance of climate change, the Sustainable Multi-Asset Income Fund seeks to deliver a meaningful improvement in carbon intensity and Carbon VaR, relative to a 30% passive global equity/70% passive global credit index. A core part of our optimisation process is to use Carbon VaR to positively tilt toward best in class companies.

The fund also invests in thematic equity sleeves which seek companies that are rising to the challenge posed by ESG trends, companies that are at the forefront of ESG innovation, the companies with the competitive advantage and the companies that are transforming their business practises or the industries in which they operate. We are planning to invest in “Carbon Neutral” thematic equities. The intended weight at inception is 5%. For the Carbon Neutral equity portfolio, we have divided the investment universe into 3 categories; Renewable Energy, Smart Grid and Sustainable Living, this is shown in the chart below.

![Chart](chart.png)

The securities in the Renewable Energy category will be from companies where at least 75% of revenues are directly related to the Carbon Neutral theme. Yield Cos are an example of securities in the Renewable Energy category where 100% of revenues are derived from the Carbon Neutral theme. The revenue threshold for securities in the Smart Grid and Sustainable Living category will be lower, here we are selecting companies that have a business segment that is increasingly contributing to the Carbon Neutral theme. The companies in the Smart Grid category are providing the infrastructure and services to support the transition to a low carbon world. The companies in the Sustainable Living category are leading the innovation, and manufacturing the
products, for a low carbon world. On average, the Carbon Neutral portfolio will allocate 75% to the Renewable Energy category and the remaining 25% will be evenly split across the Smart Grid and Sustainable Living categories.

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.)?

ESG evaluation and analysis is applied to both top-down asset allocation and bottom-up security selections. The investment universe is defined by a combination of these factors:

Top down, we use the idea of a sustainability budget\(^3\), measured as a percentage of the relevant capital allocation in the portfolio which is managed in a sustainable way. On average, the fund will have at least 90% allocated to sustainable investments. The fund will focus on gaining market exposure by making physical investments in securities. The fund can invest in derivatives but derivative usage will be minimal, typically to hedge market risk and for cash flow management. Derivatives will be included in the sustainability budget calculation. Only cash is excluded from this calculation.

The choice of the investment universe is critical to achieving our income and ESG objectives. We construct a tailored investment universe from the bottom-up to ensure that there is a consistent approach to achieving the desired income and ESG outcome through a superior sustainability profile, lower carbon intensity and lower Carbon VaR, relative to a 30% passive global equity/70% passive global credit index. We employ both negative and positive screening to construct and identify our universe of eligible companies for equity and credit investments and a universe of suitable sovereigns for investments in emerging and developed government bond. Our negative screening excludes companies engaged in prohibited activities and sovereigns that score poorly on a range of sustainability metrics using SustainEx. We then use our proprietary ESG tools such as SustainEx, Carbon VaR, QEP Governance Score and the Country Sustainability Dashboard to tilt the portfolio towards companies and sovereigns with attractive ESG scores. Further details are provided under question 4.1.

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

Whilst the investment universe is monitored and updated on an ongoing basis, the Multi-Asset Income team formally review the universe at the beginning of each month before trading. 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 any controversies, 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.

The Multi-Asset Income team has a monthly meeting with the Sustainable Investment team, where they review the portfolio to identify any new or potential controversies. In the context of this fund, the Multi-Asset Income team will discuss the controversy and evaluate whether the company's response is appropriate. As lead portfolio manager, Remi Olu-Pitan ultimately has responsibility for assessing the impact of controversies on the fund and necessary or warranted portfolio action.

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Section 4  Investment process

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

Our investment process can be broken down into three stages as illustrated below:

Sustainable Multi-Asset Income Investment Process

Stage 1 – ESG integrated research

The first stage is our ESG integrated research process. This is where we identify assets which are most likely to deliver an attractive income over a 1 to 3 year time horizon. We have a dedicated Sustainability Cross-asset research team as part of our Strategic Investment Group Multi-Asset (SIGMA) research platform as shown below. The foundation for all Multi-Asset portfolios is the research carried out by the SIGMA. The SIGMA is organised into seven risk premia groups (Equities, Term, Credit, Commodities Currency, Private assets and Alternative Risk Premia) with six cross-asset teams (Valuation, Carry, Cyclical, Momentum, Sustainability and Volatility). The dedicated sustainability cross-asset research team ensures consistency across risk premia research groups. They incorporate quantitative and qualitative models such as the Country Sustainability Dashboard looking at country-specific relationships between sovereign sustainability scores, such as workforce education, corruption levels, access to technology and financial and economic metrics. If for example, the group does some work on climate change, this would influence the research across the risk premia groups.

Strategic Investment Group Multi-Asset (SIGMA) ESG integrated research platform

We are closely monitoring the long term impact and global response to issues such as environmental damage or job displacement due to technological disruption, for example with our Climate Progress Dashboard. If the impact and global response is sufficient given the time horizon we would explicitly incorporate these effects in our return forecasts. Our economics team has incorporated climate change into the long run 30 year asset class return and risk forecasts⁴. These are used in both our research framework as well as our portfolio construction tool, Schroder Multi-Asset Risk Technology (SMART) for portfolio optimisation.

Stage 2 – Asset allocation decisions

We believe in managing portfolios in a dynamic fashion; maintaining a static allocation to income generating assets is sub-optimal and therefore it is important to adjust exposure over time to consider economic risk scenarios, market dislocations and anomalies over a 3 to 12 month time horizon. Our asset allocation decisions in stage 2 of our process are focused on this 3 to 12 month time horizon which we believe is too short term to integrate ESG factors. In order to do this, we work with our economists to identify a series of probable risk scenarios which might affect our portfolio. We model the impact of these risk scenarios on our economists’ forecasts for growth and inflation and ascribe probabilities to these risk scenarios. The more detrimental the impact of a risk scenario, or the higher its perceived probability, the more likely we are to want to make adjustments to the portfolio or identify hedges to protect the portfolio.

Assessment of risk scenarios

Cumulative 2019–2021 inflation vs. baseline forecast

Source: Schroders. 19 March 2020 forecast. Schroders’ Economics Group baseline 2020 forecast -3.1% global growth and 1.9% global inflation. The forecasts included should not be relied upon, are not guaranteed and are provided only as at the date of issue. Our forecasts are based on our own assumptions which may change. We accept no responsibility for any errors of fact or opinion and assume no obligation to provide you with any changes to our assumptions or forecasts. Forecasts and assumptions may be affected by external economic or other factors.

The Global Asset Allocation Committee (GAAC) provides a governance structure around the dynamic asset allocation decision making process. The GAAC meets on a monthly basis (more often if market conditions dictate) and comprises five voting members who are senior Multi-Asset Portfolio Managers. The committee takes into account the output of our research, as well as the output of our Economics and Strategy team’s economic cycle models.

Stage 3 – Portfolio Construction

Define investible universe - As highlighted in question 3.5, the choice of investment universe is critical to achieving our income and ESG objectives. Using a bottom-up approach, we construct a tailored investment universe that is a consistent approach to achieving the desired income and ESG outcome through a superior sustainability profile, lower carbon intensity and lower Carbon VaR, relative to 30% passive global equity/70% passive global aggregate bond index. We construct a universe of eligible companies for equity and credit investments and a universe of suitable sovereigns for investments in emerging and developed government bonds. To construct the universe, we follow the two steps detailed below.

1. Negative screening – the first step is to exclude companies engaged in prohibited activities and sovereigns that score poorly on a range of sustainability metrics. The negative screen is applied to every holding in the portfolio. We have adopted the firm-wide exclusions as the minimum requirement, however the Sustainable Multi-Asset Income Fund has more restrictive exclusions shown below.
<table>
<thead>
<tr>
<th>Environmental</th>
<th>Schroder ISF Sustainable Multi-Asset Income</th>
<th>MSCI ESG Screened Index</th>
<th>Example Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thermal coal extraction and production</td>
<td>&gt;=5%</td>
<td>&gt;=5% (Thermal coal)</td>
<td>BP</td>
</tr>
<tr>
<td>Unconventional oil and gas extraction and production</td>
<td>&gt;=5%</td>
<td>&gt;=5% (Oil sands)</td>
<td></td>
</tr>
<tr>
<td>Conventional oil and gas extraction</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Uranium nuclear mining revenues</td>
<td>&gt;=5%</td>
<td></td>
<td>Corporation Cameco</td>
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<tr>
<td>Nuclear power generation revenue</td>
<td>&gt;=5%</td>
<td></td>
<td>Dominion Energy</td>
</tr>
<tr>
<td>Thermal coal power generation revenue</td>
<td>&gt;=25%</td>
<td></td>
<td>PPL Corporation</td>
</tr>
<tr>
<td>Utility oil and coal power generation (% of power)</td>
<td>&gt;=10%</td>
<td></td>
<td>ENEL</td>
</tr>
<tr>
<td>Utility coal power generation (% of power)</td>
<td>&gt;=10%</td>
<td></td>
<td>CenterPoint Energy</td>
</tr>
<tr>
<td>Utility oil and gas power generation (% of power)</td>
<td>&gt;=30%</td>
<td></td>
<td>OSAKA Gas</td>
</tr>
<tr>
<td>Utility nuclear power generation (% of power)</td>
<td>&gt;=30%</td>
<td></td>
<td>Duke Energy</td>
</tr>
<tr>
<td>Alcohol producer</td>
<td>&gt;=5%</td>
<td></td>
<td>LVMH</td>
</tr>
<tr>
<td>Alcohol total</td>
<td>&gt;=10%</td>
<td></td>
<td>CK Asset Holdings</td>
</tr>
<tr>
<td>Tobacco total</td>
<td>&gt;=5%</td>
<td>&gt;=5% (Producer)</td>
<td>Philip Morris</td>
</tr>
<tr>
<td>Gambling</td>
<td>&gt;=5%</td>
<td></td>
<td>Las Vegas Sands</td>
</tr>
<tr>
<td>Adult entertainment</td>
<td>&gt;=5%</td>
<td></td>
<td>Scores Holding</td>
</tr>
<tr>
<td>Civilian firearms</td>
<td>&gt;=5%</td>
<td>&gt;=5%</td>
<td>Olin Corporation</td>
</tr>
<tr>
<td>Weapons</td>
<td>&gt;=5%</td>
<td></td>
<td>Transdigm</td>
</tr>
<tr>
<td>Nuclear weapons</td>
<td>&gt;0%</td>
<td></td>
<td>All</td>
</tr>
<tr>
<td>Controversial weapons(^1)</td>
<td>&gt;0%</td>
<td>T(^2)</td>
<td>Berkshire Hathaway</td>
</tr>
</tbody>
</table>

Source: Schroders, exclusions applicable as at April 2020. At a firm level, Schroders fully supports the international conventions on cluster munitions and anti-personnel mines (APM). \(^1\) We define controversial weapons as biological and chemical weapons, landmines, cluster munitions and depleted uranium manufacturers. \(^2\) T means any tie to this industry including producer, distributor, retailer, licensor, and supplier. \(^3\) Fail means companies failing to comply with UNGC principles.

2. **Positive screening** - We use our proprietary ESG tools such as SustainEx, Carbon Value at Risk, QEP Governance Score and the Country Sustainability Dashboard to tilt the portfolio towards companies and sovereigns with attractive ESG scores.

With the universe defined, the Multi-Asset Income team work in partnership with the asset class specialist to build the underlying components. For example, our global credit fund managers will invest in bonds from issuers within our tailored investment universe. Whilst the investment universe is monitored and updated on an ongoing basis, the Multi-Asset Income team formally review the universe at the beginning of each month before trading.

**Optimisation**

Using the output of the investment meetings (SIGMA and GAAC), the multi asset income fund managers decide the overall asset allocation. Critical to the success of a multi-asset portfolio is a deep understanding of risk and the impact of combining the underlying components. With a diversified range of components to invest in, the multi asset income team use our proprietary portfolio construction system SMART (Schroder Multi-Asset Risk Technology) to derive the optimal set of capital weights expected to generate an attractive level of income and steady capital growth while being sufficiently flexible to adapt to different market environments. SMART uses our 30 year long run asset return forecasts which have been adjusted for climate change in the optimisation.
The optimisation tool decomposes the portfolio into risk factors to identify hidden risk with a forward looking approach to risk management. For example, fund managers are able to stress test assumptions of asset class correlation, volatility and returns.

Schroder Asset Class Specialists - Implementation

At least 90% of the portfolio is directly invested in tailor made solutions for this strategy which have been created in collaboration with the specialist investment teams across Schroders. Naturally, a key driver of the selection of these components is which securities are able to distribute income. The fund is able to leverage the full breadth of fundamental managers across Schroders in equities, fixed income and alternatives.

We work with specialists within equities to design strategies that give exposure to particular regions or themes, aiming to blend exposures to different processes and styles in order to achieve the portfolio’s objectives whilst balancing the portfolio’s risk. We also work closely with the specialist teams within fixed income to create bespoke solutions across the entire spectrum of fixed income assets including government bonds, investment grade, high yield, emerging market debt and securitised credit. We also work with specialists across fixed income and equities to build bespoke exposure to hybrid securities such as convertible bonds and preferred securities. This collaboration enables the Multi-Asset Income team to identify the unique features of these asset classes and capitalise on skills across the specialist teams to maximise income potential.

The Multi-Asset Income team have significant experience of working with other Schroder investment teams and has a deep understanding of the style and approach of each. Remi Olu-Pitan has been managing Multi-Asset portfolios for over a decade and over this time has worked extensively with different specialist teams to gain exposure to favoured markets. Meanwhile, Dorian Carrell has worked within both the equities and fixed income teams during his time at Schroders and therefore has a unique insight into the approaches of different teams across the business. This allows the team to manage the overall portfolio effectively and identify those teams with strategies that best complement each other. The Multi-Asset Income team closely co-ordinates with the specialist teams to ensure each is managing their allocation according to the correct guidelines, risk parameters and objectives.

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

Portfolio construction

Using the output of stage 1 and stage 2 described above, the multi-asset income team decide the overall asset allocation. With a diversified range of components to invest in, the fund managers use our proprietary portfolio construction system SMART (Schroder Multi-Asset Risk Technology) to derive the optimal set of capital weights expected to meet return and risk objective while being sufficiently flexible to adapt to different market environments. Within SMART fund managers optimise using 30 year long run asset return forecasts adjusted for climate change. In question 3.4 above, we have outlined our approach to incorporating climate change into our asset class return forecasts. Question 3.4 also describes our planned investment in “Carbon Neutral” thematic equities.

Proprietary tools specific to climate change

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 proprietary quantitative tools assess the investment implications of ESG factors at the top down asset allocation level and the bottom up security selection level. Specifically to integrate climate change into our portfolio construction we use Carbon VaR. Carbon VaR allows us to quantify how companies’ profitability would be impacted if carbon prices rise to $100 a tonne. We use this as an input to our optimisation process for equities in order to favour companies with better Carbon VaR.

Furthermore, the Schroders’ Sustainable Investment team have also developed the 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.

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

All fund holdings are subject to ESG analysis as outlined in question 4.1.

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

The fund launched on 21 January 2020. The ESG evaluation or investment process has not changed since we launched the fund.

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

While the fund does not target a specific social goal or impact, as mentioned in question 3.3, we use our proprietary tools including SustainEx to build our sustainable investment universe and to tilt our portfolio towards those companies which score most attractively overall on social and environmental impact. SustainEx scores sum the positive and negative impacts for each company across almost 40 metrics, including environmental measures, such as carbon emissions, waste generation and nuclear power generation, and social measures, such as employee fatalities and tobacco production.

The Sustainable Multi-Asset Income portfolio favours those companies with positive impact scores using these metrics. The fund will also make investments in projects or themes that are aligned to the United Nations Sustainable Development Goals (UN SDGs) with attractive diversification properties. For example, these investments include developed market green bonds, sustainable development bonds and the Blue Orchard SDG Impact Bond Fund.

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?

There are four types of derivative used within the fund:

- Futures may be used to temporarily gain market exposure or to remove exposure to a market. The managers believe that this is a more efficient way of managing cash flows or to hedge market exposure since it is less expensive and quicker to transact than implementing decisions via direct securities.
- Currency forwards may be used to hedge currency exposure (e.g. to reduce the tail risk of sovereign risk by selling the euro).
- Options may be implemented as a portfolio protection strategy to reduce volatility and to cushion the portfolio against a market correction while also retaining exposure to the upside.
- Credit default swaps (CDS) may be used to hedge credit exposure to sovereign or corporate bonds.

The fund can invest in derivatives but derivative usage will be minimal, typically to hedge market risk and for cash flow management. The fund will focus on gaining market exposure by making physical investments in securities.

In the case of using derivatives to gain market exposure, this will be primarily for developed market sovereign bond futures as they can provide an efficient way of gaining market access. Outside of sovereign bond futures, derivative usage to gain equity and credit market exposure will be restricted to 10% for cash flow management purposes.

There is no restriction on using derivative to hedge market risk, however where we do use derivatives, we will not cause the portfolio to have net short exposure to any asset class with the exception of currencies.

For ESG purposes, derivatives are treated as market exposure and are counted as part of the reporting.

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

The Fund may also invest up to 10% of its assets in open-ended investment 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 mentioned in the portfolio construction stage of the investment process, we use ESG factors to constructing a tailored investment universe for companies and sovereigns. This tailored universe is in effect our “buy list”. From this universe of eligible companies, we select the most desirable equity and credit securities and from the universe of suitable sovereigns we select the investments in emerging and developed government bonds. To construct the universe, we follow the two steps detailed below:

**Two steps for screening**

### Negative screening

- We exclude companies engaged in prohibited activities and sovereigns that score poorly on a range of sustainability metrics
- The negative screen is applied to every holding in the portfolio

### Positive screening

- To favour companies and sovereigns with attractive ESG scores
- For the positive screening we use our proprietary quantitative and qualitative ESG tools
- Tools such as SustainEx, QEP Governance Score, Carbon VaR and the Country Dashboard

Source: Schroders.

The Multi-Asset Income team has a monthly meeting with the Sustainable Investment team, which acts as an internal control to ensure compliance of the portfolio with the ESG criteria. In this meeting the teams review the portfolio to identify any new or potential controversies and review engagement progress of underlying holdings.

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 aims to deliver a superior sustainability profile, with a meaningful improvement in carbon profile, relative to a 30% passive global equity/70% passive global credit index. We use SustainEx to assess the overall sustainability profile of the fund as shown below. This measures the social and environmental impact of companies relative to their sales.

**Superior Sustainability Profile: Portfolio breakdown by SustainEx scores**

<table>
<thead>
<tr>
<th>Score Range</th>
<th>Fund</th>
<th>30% Passive Global Equity+70% Passive Global Bond</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-2.5% to 0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-10% to -2.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-50% to -10%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt;50%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Schroders, as at 31 March 2020. Passive global equity is represented by MSCI ACWI Index. Passive global bond is represented by Barclays Global Aggregate Corporate Index.

To assess the improvement in the fund’s carbon profile versus a 30% passive global equity/70% passive global credit index – we use two metrics: 1. Carbon intensity as measured by the scope 1&2 emissions relative to each $1mn of sales; 2. Carbon VaR which is the weighted average percentage of company earnings at risk if carbon prices rise to US$100/tonne. The charts below show the improvement.

**Carbon profile**

**Carbon intensity**

Source: Schroders, as at 31 March 2020. Passive global equity is represented by MSCI ACWI Index. Passive global bond is represented by Barclays Global Aggregate Corporate Index.
The fund’s third-party ESG characteristics are routinely monitored relative to a 30% passive global equity/70% passive global credit index based on a recognised and independent assessment. Although we do not use third-party ESG research to manage our portfolio – given the arguable shortcomings of such measures – we generally expect to observe a positive skew based on third party measures of ESG.

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

As mentioned in our answer to question 3.3, a key part of our approach is negative screening to exclude prohibited companies and positive tilting toward best in class income generating securities. To identify these best in class ESG investments one of tools we use is SustainEx, which combines measures of both the harm companies can do and the good they can bring to arrive at an aggregate measure of each firm’s social and environmental impact. SustainEx scores sum the positive and negative impacts for each company across almost 40 metrics, including environmental measures, such as carbon emissions, waste generation and nuclear power generation, and social measures, such as employee fatalities and tobacco production. For a full breakdown of the ESG indicators, please refer to question 3.3. In addition, we also use Carbon VaR as an input to our optimisation process for equities in order to favour companies with better Carbon VaR.

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 ESG approach of the fund:

Monthly presentation which includes:
– Investment philosophy and process
– Portfolio positioning
– Portfolio sustainability profile, Carbon VaR and carbon intensity
– Examples of sustainable investments across asset classes
– Engagements

Monthly fund update
– Market, portfolio activity and outlook commentary
– Sustainability profile

Quarterly sustainability report which includes:
– Environmental measures
– Social measures
– Governance measures
– Most significant engagements and voting by topic

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 Sustainable Multi-Asset Income:

Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the fund.

The fund may have contractual agreements with counterparties. If a counterparty is unable to fulfil their obligations, the sum that they owe to the fund may be lost in part or in whole.

The fund may lose value as a result of movements in foreign exchange rates.

If a bond held in the portfolio defaults, this may reduce interest payments and could result in the capital value of the fund at maturity being lower than the initial investment.

High yield bonds (normally lower rated or unrated) generally carry greater market, credit and liquidity risk.

Investment objectives express an intended result but there is no guarantee that such a result will be achieved. Depending on market conditions and the macro economic environment, investment objectives may become more difficult to achieve.

The transition of the financial markets away from the use of interbank offered rates (IBORs) to alternative reference rates may impact the valuation of certain holdings and disrupt liquidity in certain instruments. This may impact the investment performance of the fund.

The fund may invest in mortgage or asset-backed securities. The underlying borrowers of these securities may not be able to pay back the full amount that they owe, which may result in losses to the fund.

Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets.

Derivatives are used to generate income (which is paid to investors) and to reduce the volatility of returns but they may also reduce fund performance or erode capital value.

As the fund intends to pay dividends regardless of its performance, a dividend may represent a return of part of the amount you invested.

A decline in the financial health of an issuer could cause the value of its bonds to fall or become worthless.

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.

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