Schroders

European SRI Transparency Code

Schroder ISF Sustainable EURO Credit

May 2021

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 EURO Credit 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 second 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 2021

Section 1 List of funds covered by the Code

Fund name:

– Schroder ISF Sustainable EURO Credit

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

– Best-in-class Investment selection

– Sustainability themed

Asset class:

– Actively managed, Corporate bonds denominated in euro or euro-hedged

Exclusions:

Environmental exclusions

- Fossil-fuel generated energy
- Nuclear energy
- Coal extraction
- Uranium extraction
- Conventional and Non-conventional oil & gas extraction (including fracking)

Social and human rights exclusions

- Alcohol
- Tobacco
- Gambling
- Pornography
- Conventional weapons
- Non-conventional weapons

Material ESG misconduct / controversy

- Violation of UN Global Compact (UNGC) principles (MSCI controversy data)

Country exclusion criteria

- "Not free" classified countries according to Freedom House
- Countries that have not ratified the United Nations convention on biological diversity
- Countries that rank within the lower 40% of the Transparency Internationals Corruption Perception index
- Countries that have not signed the Nuclear Non-Proliferation Treaty
- Countries that have not signed the Paris Agreement

Fund capital as at 31 March 2021:

– €249.9 million

Links to relevant documents:

– KIID: https://www.schroders.com/getfunddocument/?oid=1.9.3434540

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

– 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 (SIML)

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 22 dedicated ESG professionals (as at 31 March 2021) 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 220 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
– United Nations Global Compact (UNGC) – EFAMA Responsible Investment Working Group – Principles For Responsible Investment (PRI) – UKSIF – EuroSIF – Swiss Sustainable Finance – Responsible Investment Association Australasia (RIAA) – Investment Association Stewardship Committee – Investment Association Sustainability and Responsible Investment Committee – Investor Forum – Financial Reporting Council – Focusing Capital on the Long Term	– Net Zero Asset Managers Initiative – 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 31 March 2021, Schroders managed £583.0 billion (€684.4 billion/$804.3 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 2020, Schroders managed £105 billion (€117.3 billion/$143.5 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 2020, Schroders achieved its commitment to become a fully ESG integrated firm[1].

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 March 2021, Schroders managed over £25.9 billion (€30.4 billion/$35.7 billion) of sustainable assets[2].

[1] For certain businesses acquired during the course of 2020 we have not yet integrated ESG factors into investment decision-making. There are also a small number of strategies for which ESG integration is not practicable or now possible, for example passive index tracking or legacy businesses or investments in the process of or soon to be liquidated, and certain joint venture businesses are excluded.
[2] As of March 2021, Schroders defines sustainable AUM as that which is classified as Article 8 & 9 under EU Sustainable Finance Disclosures Regulation. For more information, please visit schroders.com/sustainability.

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

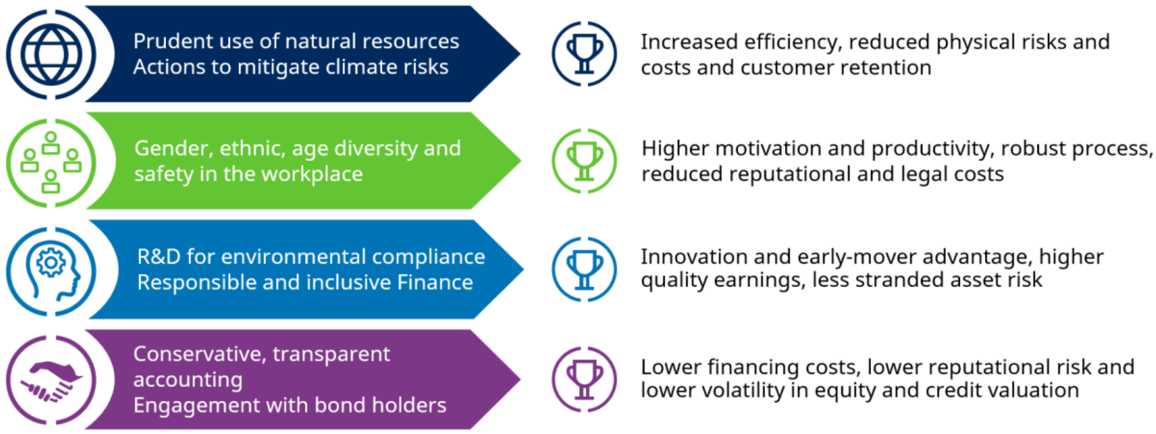
3.1 What is (are) the fund(s) aiming to achieve by integrating ESG factors?

The Schroder ISF Sustainable Euro Credit is a dedicated credit fund that selectively invests in Euro and in Euro hedged bonds issued by companies that can demonstrate strong or improving sustainable business activities and behaviours from a diversified global sustainable credit universe, aiming to provide income and growth in the long run.

The fund targets its investments towards environmentally and socially responsible themes and activities through prioritising care for the environment, and encouraging greater transparency, diversity and other sustainable factors from bond issuers. By doing so the fund aims at sponsoring change towards a more sustainable word, while delivering sustainable investment returns to our customers.

We, and our customers, acknowledge our responsibility as credit investors to preserve our environment and improve the society that we all live in. As financiers of business activities, we can exercise our responsibility by materially influencing and promoting positive change through engagement and investment. In order for companies to flourish over the long term, they must understand and manage environmental, social and governance issues which will have a meaningful influence on their cash-flows through factors such as climate and social changes, regulation, supply chain risk or management reputation.

How companies can benefit from improved long-term performance from using sustainable business models:



Source: Schroders.

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' Sustainable EURO Credit strategy is managed by the European Credit team and Saida Eggerstedt as lead portfolio manager. This team manages a range of ESG integrated credit strategies alongside this dedicated sustainable strategy.

Portfolio holdings are primarily analysed from an Environmental, Social and Governance (ESG) perspective internally through our in-house credit analysts. We believe that to achieve consistent performance and mitigate risks, it is important to deploy significant resources to conduct detailed credit research. Analysts based in Europe, Asia and the Americas perform detailed analysis into the environmental, social and governance risks affecting each company, in addition to analysis of the business model of each issuer and their credit fundamentals. Non-financial considerations including environmental, social and governance issues have a material influence on the sustainability of issuer cash-flows, through changing consumer expectations, increasing regulation, supply chain risk, brand reputation etc. Analysts pay close attention to these factors when conducting research, giving each company a rating that reflects the relative quality of the company from an ESG perspective. However, we do not rely on these scores alone for an investment recommendation, we place emphasis on collaboration and engagements between analysts and portfolio managers when expressing views.

Within our global investment platform more than 40 global credit research analysts work together with over 100 equity research analysts and exchange ideas on ESG issues, including potential engagement with companies. The credit research analysts will also be supported and encouraged in their ESG assessments by our Head of Sustainable Credit, Saida Eggerstedt. She spends around 40% to 50% of her time analysing emerging and current sustainability issues across geographies and sectors to identify long term alpha opportunities. She also regularly conducts ESG engagements with issuers of Green and Social bonds to understand the impact and the strategic sustainability direction of the respective issuer.

Moreover, the central Sustainable Investment team provides a valuable additional source of proprietary research, as well as specialist advice to help inform and improve our understanding of ESG issues and shape conversations with management. While theme identification, security selection and portfolio construction decisions lie firmly with the credit team, ESG research provides a source of potential credit themes, as well as in-depth analysis of theme ideas that emerge from the credit team brainstorming meetings. For example, the credit team explored the potential impact from resistance to antibiotics in a brainstorming meeting. We discussed the idea with the Sustainable Investment team, who subsequently produced an in-depth study of antimicrobial usage, resistance, and the impact across various industry sectors. Credit analysts also collaborate with the Sustainable Investment team on company meetings and engagement on specific issues. There are currently 9 dedicated Sustainability research analysts.

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, Refinitiv, Sustainalytics 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)?

ESG is at the centre of our investment process. We believe that integrating ESG into an investment process is not a simple filter based on a snapshot of external metrics that are often static and backward-looking. It is important to identify changes and how companies are managing those changes over an investible horizon. By integrating ESG into our research and investment process, we are not aiming to make subjective moral statements on behalf of our clients, but recognise that ESG issues can and do have a material impact on the short, medium and long-term performance of corporate issuers. In order to understand the risks to financial performance it is crucial to identify the implicit risk that E, S & G factors brings to bear on the willingness and ability of issuers to honour their obligations to bondholders.

The fund applies its sustainable approach through the following criteria:

- Strict exclusions of environmentally destructive (i.e. fossil fuel extraction and energy generation), socially costly (i.e. alcohol and tobacco), and human rights violating (corruption, weapons, UNGC violators) issuers. Please find a detailed description in the investment process section.
- Inclusion of issuers that demonstrate stable and (importantly) improving sustainable trajectory relative to their industry peers; encouraging innovation and transition towards a more benevolent global economy.
- Application of sustainability themes. ESG criteria reflected in our sustainability themes include among others sustainable finance, waste management, climate change mitigation and environmentally-friendly packaging.
- Engagements with issuers aimed at improving disclosure and adoption of robust ecological, social policies.
- Investing in green bonds, social bonds and sustainability bonds

Proprietary Sustainability Assessment

Analysts based in Europe, the Americas and Asia undertake explicit individual E, S & G assessments for each issuer they cover. The sustainability assessment is based on analysis of publicly available data (such as emissions, water usage, boardroom pay, board diversity etc.) as well as views drawn through engagement with company management. Each assessment will aim to draw conclusions as to the sensitivity of each issuer to key ESG risks facing the industry and other industries and examine the strengths and weaknesses of the issuer as it meets these challenges. This provides the analyst with an evidence framework to further support knowledge and understanding of the issuer.

The assessment provides an appraisal of the following:

- What are the most important factors that affect the stakeholders within each industry?
- Are issuers trying to adapt to these factors in a positive and proactive way and what are likely to be the effects experienced by the stakeholders?
- What challenges or opportunities are they facing in doing so?
- What conclusions can be drawn on the issuers' willingness and ability to manage change and improve?

The Sustainable Investment team developed in collaboration with the credit team a proprietary tool called CONTEXT that provides analysts with an array of data metrics common to each sector that allows credit analysts to perform their E, S & G assessments, including a comparison between issuers within the industry and across geographies.
It provides an important database, portal and repository for analyst E, S & G assessments. For illustration, please find below a list of ESG components included in the analysis:

- **Attracting and retaining talent**: is the company an attractive place to work for current and prospective employees? Does it pay competitive wages?
- **Productivity**: Is the company investing in training and developing its workers? How productive is the workforce?
- **Demographics & Culture:** Does the company have an equitable, open and diverse working environment? Does the company face talent loss through retirement?
- **Customers / Brand:** Does the company have a strong, healthy brand? Is it investing in developing a full range of marketing and sales channels?
- **Environment:** Operational exposure: Are the company's operations carbon or energy efficient? Does the company have a strategy to address emerging environmental challenges? Does the company manage water use efficiently?
- **Governance & business oversight:** Are independent directors engaged with monitoring the business and operating performance? Has the company established mechanisms and procedures to ensure concerns are escalated? Does the company report business performance transparently and without bias?
- **Governance & strategic oversight**: Are independent directors engaged in oversight of strategic decisions and capital allocation decisions? Is the independent board equipped to evaluate strategic decisions? Are there conflicts of interest that could impede independent evaluation of decisions?
- **Governance & shareholder protection**: Are there conflicts of control that could undermine investors' interests? Does the control structure create misalignment between decision making and economic interests? Are management incentives aligned with corporate strategy and value creation?

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

Climate change is very quickly becoming recognised as a defining driver of the global economy, society and financial markets and will increase in prominence over coming years, decades and beyond. For the next generation of investors and citizens this is of high priority. While carbon neutrality by 2050 might seem a long-term goal today, environmental regulations are already becoming more sophisticated (i.e. fines for carbon emissions in the Auto sector, higher carbon prices, harsher scrutiny of financial intermediaries that are not phasing out fossil fuel financing). Therefore, the need for companies to have a credible strategy to reduce carbon emissions is a nearer term necessity, with clear milestones and investor engagement to follow up on execution.

Fossil fuels account for four-fifths of the world's total greenhouse gas emissions so lowering global production is key to meeting climate change commitments. We exclude the most destructive businesses from an environmental point of view, applying rules with regards to the extraction and production of coal, uranium, conventional and unconventional oil and gas as well as the energy generation coming from coal, oil, gas and nuclear energy. Furthermore, an important part of our ESG assessment is to consider the energy efficiency of a company, its operational energy exposure, use of natural resources, as well as potential actions to mitigate climate risks. We consider among other components the carbon intensity of a company as well as the use of water, renewable energy and recycling of waste.

Our issuer analysis also includes climate change risk and opportunities. Physical risk and transition risk are taken into account in line with TCFD (Task Force on Climate-related Financial Disclosures) recommendations as part of the ESG assessment and the investment process. Proprietary tools used to analyse transition risk such as Carbon Var or our physical risk tool are further described in section 4.2.

Additionally, through active engagement we encourage companies to reduce their carbon emissions and to follow a climate policy that is in line with the Paris agreement targets (limiting greenhouse gas emissions by 2025 to a level commensurate with a 2 degree scenario) in order to promote change towards a lower carbon world.

Finally, our internal Sustainability team developed a climate progress dashboard that helps the portfolio managers to navigate through climate change related risks and opportunities. The Climate Progress Dashboard monitors change indicators across the four categories that have the most influence on limiting global temperature rises: political change, business and finance, technology solutions and entrenched industry (i.e. fossil fuel use). It also tracks the extent to which key drivers of decarbonisation can mitigate rising temperatures. Meeting global leaders' commitments to limit temperature rises to 2°C will require action across a range of areas, by a range of stakeholders. 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. The climate change progress dashboard is further described under section 4.2.

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.)?

From the global credit universe we apply environmental & social screens which aim to exclude the most harmful practices and outcomes from business activity. The exclusion are explained in detail in the investment process section of this document.

Within the remaining universe our proprietary ESG assessments aims at identifying issuer that show strong and improving sustainability characteristics. This means that our portfolio is tilted towards best- in- class issuers that demonstrate strong sustainability metrics in their sectors and those that are committed to meaningful improvement.

Our proprietary ESG Sustainability rating is a two-dimensional taxonomy, that combines a quality rating with a forward-looking directional rating that identifies improving and deteriorating issuer sustainability characteristics. We attribute a 4 level sustainability rating to each of the E, S & G pillars of the assessment that reflects a judgment that is relative to other issuers in the industry sector. An overall sustainability rating is then assigned to conclude the overall sustainability position of the issuer.

Quality rating
A: Issuers with strongest ESG standards/metrics relative to the industry with no material controversies
B: Issuers with industry best practice in most areas, with no material controversies

C: Issuers below best practice for the industry with no material controversies

D: Issuers below the industry best practice in a number of areas or with material controversies

Direction rating

In addition to the current quality snapshot, analysts provide a forward-looking directional outlook rating. Here, there is a much greater reliance on qualitative analysis to mesh the company engagement and the analyst knowledge of adjacent companies and supply chains together with government actions and NGO pressures.

The role of the sustainable credit team is also to identify and support companies that demonstrate improving ESG credentials, and to mitigate risk of deterioration.
For this reason, we have a directional rating for each issuer, with three levels;

(+) The analyst expects material positive changes over the coming 12-24 months
(=) The analyst expects no significant changes over the coming 12-24 months
(-) The analyst expects ESG factors to deteriorate over the coming 12-36 months (the longer horizon reflects the asymmetric risks in credit)

The sustainability assessment is based on analysis of publicly available data (such as emissions, water usage, boardroom pay, board diversity etc.) as well as views drawn through engagement with company management. Each assessment will aim to draw conclusions as to the sensitivity of each issuer to key ESG risks facing the industry and across industries and examines the strengths and weaknesses of the issuer as it meets these challenges. This provides the analyst with an evidence framework to further support knowledge and understanding of the issuer.

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

Our analysts' judgements and the conclusions we draw from the raw data are updated on an ongoing basis, as circumstance of the information they receive from other sources change, prompting us to adjust our score (A-D). Between company-related data releases, management engagement is likely to affect our outlook (+/=/-). Between annual data releases, if an issuer would directly address a concern we have about the company, it would likely affect both the current position score and the outlook. On a recurrent protocol basis, we have industry sector analysts in NY and London systematically revisit sector scoring distribution semi-annually.

Some of our ESG analysis is updated quarterly, including the climate measures that are embedded into our firm wide research infrastructure. Some of the inputs into that analysis (for instance data from CDP, a key source of climate information) is released annually and as a result, analysis directly reliant on it is updated to coincide with that organisation's update cycle.

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.

The Credit team reflects controversies in its ESG ratings of individual names on an absolute and relative basis, on a continuing and also an ad-hoc basis. Material controversies create negative cash flow events as well as credit spread widening, so it is also a part of basic financial assessment of the issuer in the longer term.

Deeper analysis and target oriented engagement can change the view on the credit which will lead to selling decision if the company is unlikely to implement mitigation strategies in a convincing and meaningful manner.

On the other hand, if in the medium term the company implements convincing management and risk management changes, compensates customers and other stakeholders including regulators, increases transparency and improves culture and governance, the name might become investable again.

Schroders Sustainable Investment analysts also regularly monitor companies using MSCI ESG research, Bloomberg, EIRiS and other news sources to identify emerging controversies. Where issues are identified, they are raised and discussed with relevant sector analysts and fund managers.

If a company breaches our exclusion criteria (for example: a company changes its business model and generates more than 5% of its revenues from the production of tobacco, whereas in the past the revenues from the tobacco production was below the threshold), the fund cannot add to the existing position anymore and moreover must sell it in a maximum period of three months at the best executable price available. In practice, the fund manager would sell such a position earlier in order to reinvest in other sustainable opportunities.

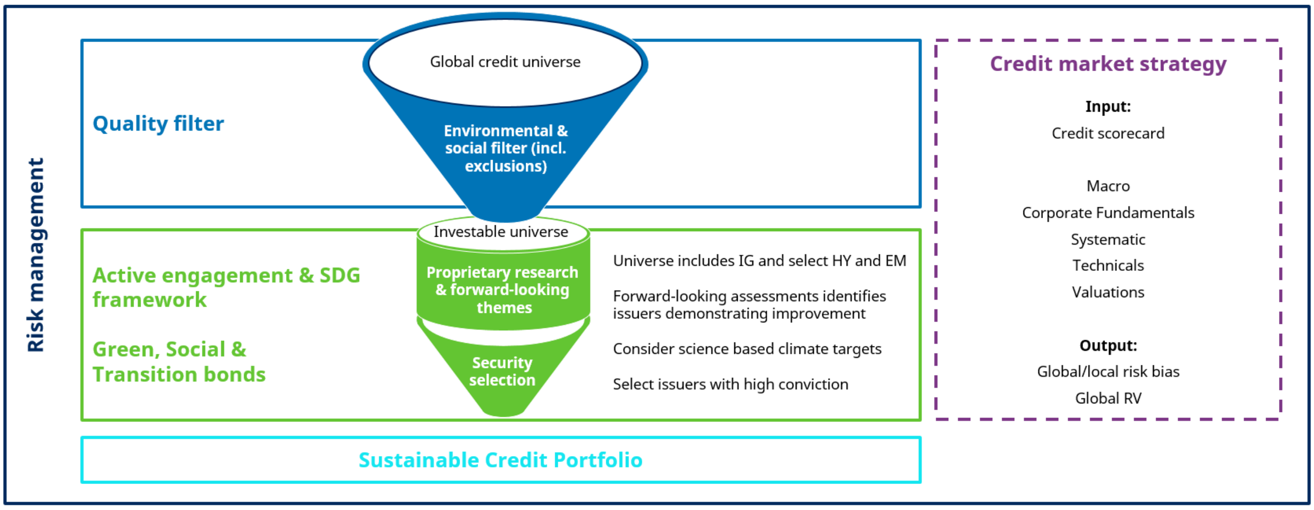
If a company becomes unexpectedly unsustainable (e.g. because of a governance red flag, human rights violation, money laundering or environmental misconduct) the portfolio manager is sensitive to these issues and uses judgement to sell it first and then reanalyses the company to minimize losses and controversy in the client portfolio.

Section 4 Investment process

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

We believe in the importance of taking a forward-looking, research-led approach that emphasises understanding the business models of the issuers of credit, and the challenges they face in the real world where sustainability risks are highly fluid. We believe that successful investing is to anticipate external forces, and use that as context for our research and investment.

The investment process applied to the strategy is illustrated below:



Source: Schroders. For illustrative purposes only.

The Fund invests within a screened credit investment universe, in credit issuers that are demonstrating acceptable or improving sustainability characteristics. We apply idiosyncratic sustainability assessments, proprietary ESG ratings alongside fundamental credit research based on Schroders' integrated themes-based research and investment process.

Defining the investment universe with strict exclusions

The investment process begins by applying a quality filter to form a screened credit investment universe. We exclude issuers that source a material proportion of their revenue from practices that are harmful to the environment, violate human rights or create negative externalities that are paid for by the society. As shown in the diagram below, we additionally have restrictions on sovereign issuers, which exclude countries that are classified as 'not free' according to Freedom House, rank poorly in the Transparency Internationals Corruption Perception Index, have not signed the Nuclear Non-Proliferation Treaty or have not ratified the UN Convention on biological diversity. We may purchase corporate issuers from countries in our sovereign exclusion list.

Exclusions criteria and revenue tolerance

Social and human rights exclusions		
Excluded sectors	**Issuer exclusion criteria**	**Criteria**
Alcohol production	Max. revenue	< 5%
Tobacco production and distribution	Max. revenue	< 5%
Gambling	Max. revenue	< 5%
Adult entertainment	Max. revenue	< 5%
Conventional weapons	Max. revenue	< 5%
Civilian Firearms	Max. revenue	< 5%
Nuclear weapons	Any tie	Not permitted
Biological Weapons	Any tie	Not permitted
Chemical Weapons	Any tie	Not permitted
Uranium weapons	Any tie	Not permitted
Landmines	Any tie	Not permitted
Cluster munitions	Any tie	Not permitted

Material ESG misconduct / controversy		
Screening criteria	**Detail**	**Criteria**
UNGC list	UNGC compliance	Fail

Environmental exclusions		
Excluded sectors	**Issuer exclusion criteria[1]**	**Criteria**
Thermal Coal Production	Max. revenue	< 5%
Oil and gas extraction	Max. revenue	< 10%
Unconventional oil and gas production	Max. revenue	< 5%
Tar sands	Max. revenue	< 5%
Uranium extraction	Max. revenue	< 5%
Nuclear energy	Max. revenue	< 5%
Oil and gas powered energy generation	Max. generation and revenue	< 30%
Thermal coal energy generation	Max. revenue	< 10%

Country/Territory exclusions (sovereign)
Exclusion criteria
'Not free' classified countries according to Freedom House
Countries that have not ratified the UN Convention on biological diversity
Countries that rank in the < 40% of Transparency Internationals Corruption Perception Index
Countries that have not signed the Nuclear Non-Proliferation Treaty
Countries that have not signed the Paris Agreement

Source: Schroders. For illustrative purposes only. Any references to securities, sectors, regions and/or countries are for illustrative purposes only and are not to be considered a recommendation to buy or sell.

Within the remaining investment universe, we follow a best-in-class approach. This means our portfolio is tilted towards issuers that demonstrate strong sustainability metrics in their sectors and those that are committed to meaningful improvement. This involves in-depth proprietary research and engagement with issuers to support positive change and understand risk.

As explained in more detail in part 3.5 that covers our ESG methodology, our best-in-class approach is based on our internal ESG assessments of each issuers. Companies that are rated A to C are preferred. The investment process pays strong attention to the absolute quality (A, B, C, D) as well as the direction of the rating (improving, stable, declining). We endeavour to invest in improving stories and are careful with companies that show declining ESG characteristics. Issuers that are rated D stable or declining cannot be purchased and are ideally the subject of engagement and will be encouraged in their transition toward more sustainable business practices.

The maximum allowed fund exposure for the combination of unrated names, D rated names (internal) and MSCI B and CCC rated names is 15%. This is equivalent to no more than 15% exposure to issuers that are ESG ranked in the bottom quartile.

Overall, after the exclusion process is complete, we aim to create value-add particularly through our proprietary forward-looking sustainability assessment of issuers and the application of the credit themes that help us to contextualize research and identify the most attractive issuers with the highest conviction. Also, the thorough engagement with the issuers is a crucial component of the investment process.

Credit themes provide forward-looking context for credit research

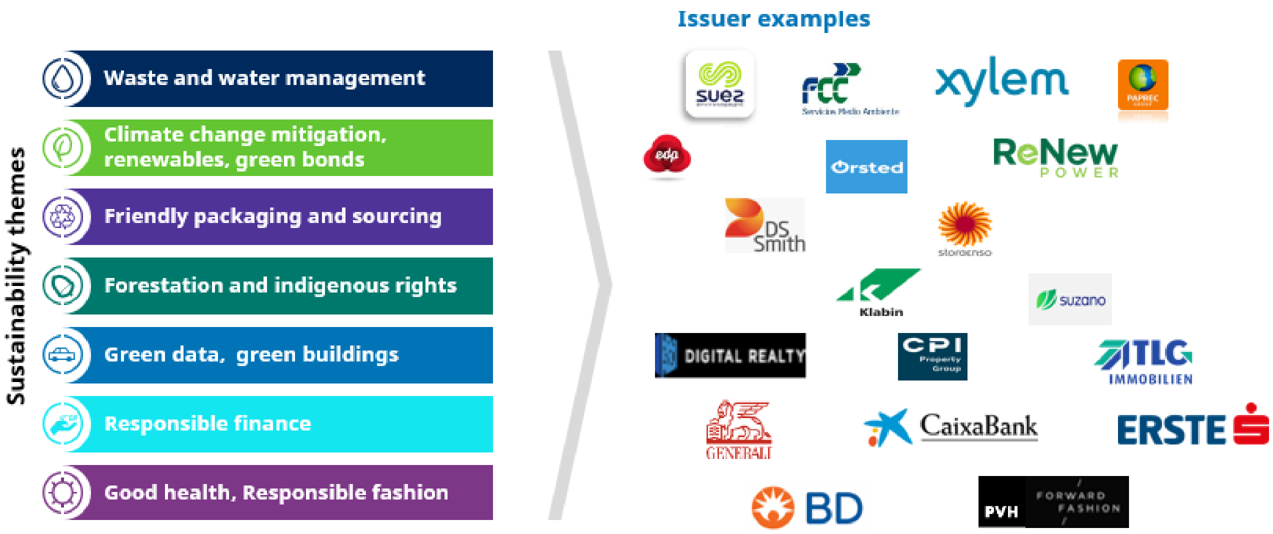
The Credit Team identify multiple forward-looking investment themes that will play out over various time horizons. Investment themes are trends or scenarios that we believe will have a material influence on the business models of the bond issuers in our universe.

Credit investment themes create the "top-down" framework that guides forward-looking credit research and ultimately security selection. Multiple themes can combine to support or highlight potential risks to a company, which in turn will inform the level of conviction behind a view. There may be as many as 10-15 themes driving security selection in a portfolio at any one time. The variety of themes and the different horizons over which themes will evolve ensures a natural diversification in portfolio strategy. We find that a company's business model that is anticipating/accommodating multiple sources of secular support gives us greater conviction that the default risk will decline.

Environmental and social themes (E&S) combine with non-ESG related themes to provide a forward-looking lens through which our analysts judge the sustainability of the issuers' commercial activities and the potential effects on corporate cash-flows, and therefore, valuations.

For our sustainability strategy, we select companies which represent and benefit from certain themes as illustrated below.

Sustainability themes drive the strategy



Source: Schroders. For illustrative purposes only.

In-depth credit research

Schroders credit research team, in collaboration with our team of over 100 active equity research analysts, provides the detailed issuer research behind successful implementation of investment themes. Schroders credit research process is fully aligned with the investment process to ensure that analysts efficiently focus research resources on current investment themes, whilst maintaining fundamental monitoring across their sectors.

We place particular emphasis on the credit research, with credit analysts an integral part of the investment team. We believe that credit analysts should share the ownership of investment positions and should look past the traditional silos of sector specialism and work as a team to understand the impact of disruptive waves across the value chain. Weekly sector review meetings, and on the desk discussions provide the forum for cross-sector discussions.

Within the forward-looking context of credit themes, credit analysts focus their research of each issuer they cover to build a clear picture of the following:

- What is the company's business model designed to achieve – what is the company vision?
- What does the company need to do in order to deliver on its obligations?
- What do we believe that the company can achieve?

Each assessment will aim to draw conclusions as to the sensitivity of each issuer to key ESG risks facing the industry and across industries and examines the strengths and weaknesses of the issuer as it meets these challenges.

Please see parts 3.3 to 3.5 for a detailed explanation, on how our proprietary ESG assessment is incorporated into the investment process and how we define our ESG methodology.

Green, Social and Sustainability bonds

The Fund will look to invest in diverse green, social and sustainability bonds in order to enhance the sustainability profile of the portfolio, aiming to hold an allocation of at least 10%. The eligibility of these bonds must be assessed at an individual security level as well as at the issuer level. The use of proceeds and the verification by the International Capital Market Association (ICMA) is decisive.

Among other formats, we utilise bilateral company meetings and calls to identify names that aim to substantively improve their transparency and environmental and social profile through issuance of green bonds and also use the opportunity to make requests for measureable impacts.

We increasingly use the United Nations Sustainable Development Goals (SDG) framework to understand and contextualise companies' business models and sustainable practices.

We might invest in selected Green and SDG bonds issued by companies that are subject to the formal exclusion criteria, as long as they support a credible and material sustainability trajectory for the issuer. For example, green bonds from excluded utility companies that are used to finance the energy transition towards lower carbon emissions are only permitted, if the issuer's transitions is in line with the Science Based Targets pathway and at least 50% of their generation capital expenditure needs to go into renewables. It goes hand in hand with our philosophy to engage with companies to encourage and sponsor them to change their business models.

Investment risk management

Risk management is embedded throughout the investment process, and supported by pre and post trade risk management tools. Due to the asymmetric risk profile of bonds, we believe that proactive risk management should be at the heart of the investment process. We believe that a portfolio should be diversified by alpha source, and not just by the number of issuers in a portfolio. Our investment process is designed to identify multiple investment themes that not only look for potential value, but for potential disruptive influences on industries and issuers. Credit research is a vital source of risk management, which seeks to identify tail risks in a forward-looking way. Therefore, a combination of diversified themes and forward-look credit analysis allows us to construct portfolios that can have high conviction, but where risk is diversified. This is supported by systems that allow us to monitor risks by a variety of metrics, such as interest rate duration, duration times spread as well as tracking error contribution, and trade monitoring systems that alert the team to potential guideline breaches before we place a trade, or breaches in guidelines brought about by market movements.

Portfolio construction

Sustainability themes, proprietary issuer sustainability assessments and themes-based fundamental credit research are at the heart of portfolio construction. We believe that sustainable investing requires the development of high conviction, long-term forward-looking investment recommendations from credit analysts that stand up to challenge from portfolio managers.

Security selection and issuer concentrations are the product of this conviction, the availability and liquidity of the bonds and how the portfolio manager anticipates the bonds to behave in relation to other positions in the fund.

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

We aim to build portfolios that efficiently generate alpha in ever changing market conditions by implementing a variety of investment themes diversified by type and by horizon. This also includes specific climate change related themes such as the rise of renewable energy and green bonds. By diversifying we construct portfolios with low correlated alpha sources that reduce volatility. We also monitor several climate measures (e.g. carbon intensity, energy efficiency) with reference to a relevant comparator with the goal to achieve a superior performance.

We try to invest in names that enable the reduction of global carbon emissions through technology and innovation. Similarly we prefer names that have clear milestones and trajectory to adapt to climate change. The fund consistently invests 15 to 20% of the fund in selective green bonds from various sectors. All in all we do not invest in fossil fuel producers and only buy utilities that produce mostly renewable energy.

Finally, 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. Overall, these tools help us to understand downside risks and to adjust the portfolio accordingly. This may result in changes to views of valuations, business sustainability, future profitability and investment risk.

SustainEx

SustainEx quantifies positive and negative externalities through a common monetary lens, at both a company and portfolio level. It is designed to help our analysts, fund managers and clients identify the threats and opportunities companies face from social and environmental trends, before they become financial costs. It is based on academic data to estimate the costs of such externalities.

Companies are under growing pressure to take responsibility for the social and environmental costs they create, through hard regulation and softer pressures from other stakeholders. Business model sustainability therefore increasingly requires that companies minimise those negative impacts, for example by reducing their carbon emissions, paying living wages or reducing sales of harmful products. Understanding companies' social and environmental impacts or externalities is therefore an important component of the sustainability of their business models.

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 International Energy Agency (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 as electric vehicles, renewable energy and carbon capture storage will all help to fight against climate change, we try to find the best-in-class issuers engaged in such activities for investment.

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.

At the sector level, the model shows the extent to which companies are impacted (positively or negatively) from rising carbon prices. As a risk management tool at the portfolio level, the model may be used as a standalone measure or against market benchmarks. At a more granular level, fund managers can see which companies are likely to be most severely impacted.

Physical Risk

Physical risk is taken into account as part of the ESG assessment as well as in the risk analysis and portfolio construction process.

In order to assess physical risk, we can use our proprietary framework, which was developed by Schroders' Sustainable investment team and has been applied to over 10,000 companies globally. It calculates what businesses would have to pay to insure their physical assets against hazards caused by rising global temperatures and weather disruption. Therefore, it helps us to understand the potential costs to some companies of insuring their assets against the impact of climate change.

As we pay special attention to risk management we use the physical risk framework to manage downside and tail risks.

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

Currently the fund does not hold an issuer without an external or proprietary ESG rating. The fund guidelines allow a maximum of 5% in unrated issuers. The fund manager will take responsibility for conducting engagement, documenting and analysis using publicly available information (i.e. rating agency credit rating report, second party opinion for green bonds etc.). The fund manager will discuss any issuers in the fund with the analysts on both a monthly, and an ad hoc basis. An analyst can commence coverage of a name within the 5% non-rated bucket at any time and if subsequent analysis leads the Sustainability scoring to be low or controversies are identified, the position will be exited within three months.

For brand new issuances where no internal or external ESG rating exists, either the fund manager or the relevant analyst based on initial research and available public data will ensure that there are no major controversies around the name. Within 28 days the analyst will perform an ESG assessment and internal rating. When new issuers come to the market, it is an opportune time to engage with them to advise on appropriate disclosures on ESG topics and metrics. In the event that the analyst does not produce a rating within 28 days, the portfolio manager has two action paths: disposing of the position or attributing the position to the 5% non-rated portfolio budget.

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

There have been no material 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?

The fund's philosophy and process is likely to result in a positive skew towards companies that actively take their stakeholders, and the society as a whole, into account.

In order to support companies that proactively develop operations towards more sustainable business practices, we also invest in Social bonds. Please see the part on Green, Social and Sustainability bonds within section 4.1., describing the investment process of the fund.

The fund management prefers companies, which pursue long term social themes, such as health and wellbeing, housing, equal opportunity, community engagement, suppliers and clients wellbeing. On the other hand the fund aims to avoid negative contributors such as, tax avoidance, carbon emission, alcohol and tobacco consumption, inefficient use of natural resources and other social controversies.

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?

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

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

The prospectus does allow investment in mutual funds, but we would not look to do so unless that mutual fund operates an appropriate and consistent sustainable investment approach and process (i.e. another fund within the Schroders range of sustainable funds) to ensure full consistency with the objectives of the fund.

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?

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.

Moreover, portfolio holdings will be reviewed at the monthly sustainable credit meetings with controversial names and engagement progress discussed, and actions agreed. The fund cannot hold more that 15% in the bottom percentile of ESG rated and unrated names. This is controlled through compliance and the sustainability team.

Overall, our exclusions and our internal ESG assessment methodology will tilt the portfolio towards best-in-class issuers that demonstrate strong sustainability metrics in their sectors and those that are committed to meaningful improvement. Therefore, we aim that the fund will score better on internal and external ESG metrics than our reference comparator, which is the ICE BofAML Euro Corporate Index. The average MSCI ESG rating for the fund is AA in comparison to A for the reference comparator as of end of March.

In addition, the risk management within the fund is measured in two ways; compliance risk and portfolio risk.

The fund manager is responsible for the portfolio and reports through his/her normal line management to an asset class head. Risk managers escalate risk issues or concerns to both asset class heads and to the Head of Investment Risk, and any issues that cannot be resolved are escalated to the Chief Financial Officer in his role as Chairman of the GRC.

Investment Risk have regular and ad-hoc discussions with the First Line with formal documented challenge taking place at quarterly Asset Class Risk Committees. These are attended by the relevant Asset Class Head, their management team and Investment Risk. Topics include; the levels and dispersion of risk and performance, status of investment risk controls and action plans to address identified outliers.

Investment Risk has a number of avenues for escalating concerns. Where agreement is not reached between Risk and a fund manager, escalation is made to the Asset Class Head and/or the Asset Class Risk Committee. Issues which Risk believes are not satisfactorily resolved or in a timely manner will be raised to the Group Head of Risk and the Group Risk Committee. GRC receives a regular report from the Head of Investment Risk. GRC is chaired by the Group CFO. If necessary, escalations are made to the Group CEO.

Section 6 Impact measures and ESG reporting

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

The overall ESG quality of the fund is assessed on a regular basis in comparison to a reference comparator (ICE BofAML Euro Corporate Index) in our ESG reporting. The ESG quality of the fund is linked to the UN Sustainable Development Goals (SDGs) covering environmental, social, as well as corporate governance aspects.

We also aim to achieve a superior ESG score using our proprietary, internal ESG metrics relative to the reference comparator. Additionally, we also assess how the portfolio scores with regards to the external MSCI ESG rating criteria against our reference comparator. Our exclusions and internal ESG assessment methodology will tilt the portfolio towards best-in-class issuers and exclude approximately 20% of the universe. Hence, we would expect that the fund will score better on external and internal ESG metrics than our reference comparator.

For Green, Social and Sustainability bonds, we try to assess the ESG quality of the issuer, as well as the impact through the use of proceeds reported by the issuers, utilizing the UN SDG framework, if possible.

Finally, we measure the impact of our engagements and keep track though Schroders' engagement dashboard. This includes the number of engagements, the engagement topics (climate chance, data privacy etc…) and the status (achieved, almost, some change, no change).

As reporting is a crucial component of transparent sustainable investing, Schroders will continue to deploy resources to develop new and state of the art reporting methodologies.

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

In the broader context we are inspired by the UN Sustainable Development Goals (SDG) to illustrate the ESG quality of the fund. In order to assess the environmental quality we look at carbon intensity, energy efficiency emission reduction plans. Social criteria include among others human right policies, board gender diversity and employee fatalities. Corporate governance include board member independence or CEO/chairman separation.

Moreover, for specific investment themes we use external frameworks such the Science Based Target Initiative in order to analyse and monitor the development a company undertakes from an ESG point of view and to measure and track the impact of our investments. Section 3.3 also lists in detail ESG indicators that we use for the ESG assessment in 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:

Quarterly Investment Report which includes:

- Market review / Portfolio and benchmark performance / Portfolio activity
- Explanation of the factors contributing to the portfolio's performance, at the sector and individual stock level
- 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

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 – 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

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 EURO Credit
The capital is not guaranteed. Non-investment grade securities will generally pay higher yields than more highly rated securities but will be subject to greater market, credit and default risk. A security issuer may not be able to meet its obligations to make timely payments of interest and principal. This will affect the credit rating of those securities. Currency derivative instruments are subject to the default risk of the counterparty. The unrealised gain and some of the desired market exposure may be lost. Investments denominated in a currency other than that of the share-class may not be hedged. The market movements between those currencies will impact the share-class. Investment in bonds and other debt instruments including related derivatives is subject to interest rate risk. The value of the fund may go down if interest rate rise and vice versa. It may be difficult to sell quickly positions of one or more companies to meet redemption requests upon demand in extreme market conditions. The fund may hold indirect short exposure in anticipation of a decline of prices of these exposures or increase of interest rate. The fund may be leveraged, which may increase its volatility