Schroders

European SRI Transparency Code

Schroder ISF European Sustainable Equity

September 2020

trans parent

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 European Sustainable Equity can be found at www.schroders.lu/sustainability. The Transparency Code is managed by Eurosif, an independent organisation.

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

Contents

Statement of Commitment

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

This is our 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.

September 2020

Section 1 List of funds covered by the Code

Fund name:

Schroder ISF European Sustainable Equity

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

Integration of ESG Factors into Financial Analysis: the explicit inclusion by asset managers of ESG risks and opportunities in traditional financial analysis and investment decisions based on a systematic process and appropriate research sources. This category covers explicit consideration of ESG factors alongside financial factors in the mainstream analysis of investments. The integration process focuses on the potential impact of ESG issues on company financials (positive and negative), which in turn may affect the investment decision.

Engagement and Voting on Sustainability Matters: engagement activities and active ownership through voting of shares and engagement with companies on ESG matters. This is a long-term process that seeks to influence behaviour or increase disclosure. Engagement and voting on corporate governance are necessary, but are not sufficient in themselves for inclusion in this category.

Asset class:

Actively managed, European equities

Exclusions:

- Adult entertainment
- Alcohol
- Anti-Personnel Landmines
- Cluster Munitions
- Gambling
- Tobacco
- Oil and gas extraction and production
- Controversial weapons
- Military weapons
- Thermal coal

Fund capital as at 31 June 2020:

€ 26 million

Other labels:

- French SRI label
- Belgian Febelfin label

Links to relevant documents:

- KIID: https://www.schroders.com/getfunddocument/?oid=1.9.3135230
- Prospectus: https://www.schroders.com/getfunddocument/?oid=1.9.1755
- Annual report: http://www.schroders.com/getfunddocument?oid=1.9.49335
- Semi Annual report: http://www.schroders.com/getfunddocument?oid=1.9.25163

- Fund fact sheet: https://www.schroders.com/getfunddocument/?oid=1.9.3233375
- Monthly Newsletter: https://www.schroders.com/getfunddocument/?oid=1.9.3323650
- Financial and non-financial reporting: http://www.schroders.com/en/lu/professional-investor/literature/legal-documents/

Section 2 General information about the fund management company

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

Schroder Investment Management Limited

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

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

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

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

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

2.3 How does the company formalise its sustainable investment process?

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

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

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

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

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

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

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

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

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

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

Schroders has an experienced and well-resourced Sustainable Investment team, which has been embedded as part of our overall investment processes for some time. The team comprises 22 dedicated ESG professionals who are responsible for ESG specialist engagement, voting and facilitating ESG integration into the investment process across teams and asset classes, ESG data management, sustainability client reporting, and product development.t. Together they have more than 230 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 – 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	– CDP Climate Change – CDP Water – CDP Forest – 'Aiming for A' investor coalition – Climate Action 100+ – Transition Pathway Initiative (TPI) – Global Real Estate Sustainability Benchmark (GRESB) – Better Building Partnerships – Paris Pledge for Action – Powering Past Coal Alliance Finance Principles	– Access to Medicine Index – Business Benchmark on Farm Animal Welfare – Coalition for Inclusive Capitalism – ShareAction Workforce Disclosure Initiative	– ICGN International Corporate Governance Network – Asian Corporate Governance Association – UK Corporate Governance Forum – Institute of Business Ethics – Eumedion

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

Schroders fully supports the following international conventions:

- The Convention on Cluster Munitions (2008): prohibits the production, stockpiling, transfer and use of cluster munitions
- The Anti-Personnel Landmines Treaty (1997), also known as The Ottawa Treaty (1997): prohibits the production, stockpiling, transfer and use of anti-personnel landmines
- The Chemical Weapons Convention (1997): prohibits the use, stockpiling, production and transfer of chemical weapons
- Biological Weapons Convention (1975): prohibits the use, stockpiling, production and transfer of biological weapons.

We will not knowingly hold any security that is involved in the production, stockpiling, transfer and use of these weapons. We do not exclude those companies whose business activities or products only have the potential to be used for these purposes, or where these activities or products have not been undertaken or created with these uses in mind. Schroders will apply this policy to all Schroders funds that we directly manage. As of 30 June 2020, Schroders managed £525.8 billion (€578.4 billion/$649.6 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 30 June 2020, Schroders managed over £490 billion (€539 billion/$605 billion) of integrated assets.

Sustainable means sustainability is a cornerstone of the investment process. The resulting portfolio has a strong sustainability profile, focused on generating returns that can truly be maintained over the long term. As of 30 June 2020, Schroders managed over £2.4 billion (€2.6 billion/$2.9 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?

Schroder ISF European Sustainable Equity is an evolution of our longstanding Schroders European Blend franchise. The Blend process is style-agnostic – value and growth ideas have equal consideration – and seeks to generate consistent alpha over the long term through a focus on idiosyncratic stock ideas. This fund integrates that approach with two proprietary sustainability tools: SustainEx, which quantifies the positive contributions and negative impacts companies have on society; and CONTEXT, which is a framework that focuses on the interests of all company stakeholders, not just shareholders.

SustainEx views costs and benefits through a hard economic lens and provides an objective measure of companies' credit or deficit with society, which the European Blend team believe will become more important as they crystallise into financial costs or benefits. The team integrates SustainEx into their sustainability analysis to allow analysts and fund managers to measure and manage the activities of companies to which they are exposed in a more effective and quantifiable way. As measured by SustainEx, the fund aims to be a net positive contributor to society on an absolute and relative basis.

In addition, the team believes that all stakeholders matter to a firm's financial performance; it is their belief that businesses work best when all stakeholders are in win-win partnerships. Traditional financial analysis has perhaps focused just on governance and management quality in the pursuit of better financial metrics; however, our sustainability model integrates this with the perspectives of all other stakeholders, including regulators, customers, suppliers, employees, the environment and local communities. The collective insight of our equity analyst team, combined with our in-house Sustainable Investment team and Data Insights team, comes together into CONTEXT to provide an evidence-based framework to evaluate the sustainability of individual companies with the respect to all stakeholders. The data from CONTEXT not only supports and enhances the fundamental analyst research that drives our investment process, but also provides a well rounded perspective for the fund managers in evaluating the balance between risk and reward in portfolio construction. By integrating the CONTEXT framework, the fund aims to invest in the best-in-class or improving sustainability profiles in order to award positive corporate behaviour.

The investment objective is to provide capital growth and outperform the benchmark by 3% per annum, gross of fees, over rolling 3-5 year periods. The team believes that incorporating ESG factors into the investment process will help in achieving this objective.

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 Sustainable Investment team created a proprietary tool called CONTEXT which forms the core of ESG integration in the fund.

CONTEXT is a proprietary investment-driven ESG tool developed by Schroders' Sustainable Investment team that provides a systematic framework for analysing a company's relationship with its stakeholders and the sustainability of its business model. It is designed to support our investment teams' understanding of the companies in which they invest by providing a framework to identify key performance drivers and data to examine strengths or weakness in those areas. It focuses on strengthening that analysis and its use in investment decisions, rather than dissemination of external, third party ESG ratings.

CONTEXT has three key benefits compared to other third party providers. First and most importantly, the tool is proprietary to Schroders, so we have visibility and control over the data inputs and outputs. This not only gives us a robust understanding of what drives peer rankings but also gives us the opportunity to drill down into a particular issue. Second, the tool is dynamic. The investment team anticipate that it will become more and more powerful as equity analysts increase company engagement, sustainability analysts develop their thematic research, and data analysts collate more input metrics. Finally, the tool is forward-looking. It not only highlights where companies need to improve but also captures where improvements have already been made and on which the investment team can capitalise.

CONTEXT captures all stocks included in the MSCI Europe index as well as constituents of the FTSE 350 index. This is comparable to the research mandate of the European Blend equity team. In total, this accounts for approximately 500 companies.

Another proprietary tool the team use is SustainEx. SustainEx measures the costs companies would face if all of their negative externalities were priced or the boost if benefits were recognised financially. It combines economic logic with sustainability expertise, industry knowledge, company data and academic research to attribute previously unaccounted social and environmental costs and benefits to companies.

Our Sustainable Investment team developed SustainEx to help investment teams identify the risks companies face, to help ensure they are reflected in investment decisions and valuations. The team also use the data to identify opportunities that might be overlooked by the market.

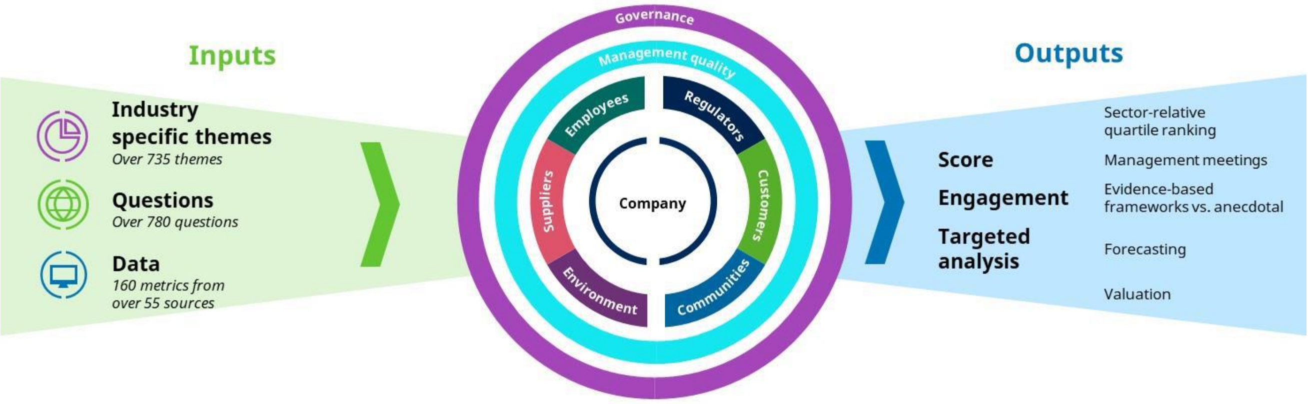
Our Sustainable Investment team has extensive networks within its respective field. Information is drawn from publicly available corporate information and company meetings, from broker reports, industry bodies, and research organisations, think tanks, legislators, consultants, Non-Governmental Organisations and academics; wherever it is felt the information would add value.

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

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

There are six stakeholders on which a company is assessed – Customers, Employees, Environment, Local Communities, Regulators and Suppliers.

Each of these stakeholders is also materially influenced by two all-encompassing factors – Governance and Management Quality – that are incorporated within the CONTEXT framework, giving analysts eight parameters on which to rank each company. Our in-house Sustainable Investment team spent a significant length of time creating this tool, sourcing the data and engaging in discussion with our team of analysts to provide a framework for the most pressing concerns facing each parameter. The stakeholder weightings are different for each sector, depending on relevancy in the industry. The tool currently examines 735 global ESG trends, focusing on more than 160 metrics from over 55 sources, but is constantly evolving and the team are actively looking to add sources to improve the tool.



CONTEXT compares the data for the company against its peers and determines a score - very weak/weak/moderate/strong/very strong - which captures the company's standing within the peer group towards that certain stakeholder. Firms that do not report data can be penalised for not doing so, depending on whether it is reasonable to expect the company to provide that information.

CONTEXT is dynamic and allows analysts to express a view on how a company interacts with any given stakeholder by detailing it in their own words. If the analyst has a different view of the company from that implied by the systematic combination of metrics, based on his or her knowledge of the company, he or she can adjust the score manually with justification. Where this occurs, the justifications of why a score should be changed are scrutinised and agreed at meetings between the Sustainable Investment team and the fund managers.

SustainEx provides a forward-looking view on sustainability by examining the costs companies impose and the benefits they provide to each key stakeholder group as shown below. Our Sustainable Investment team's research has identified and examined 47 externalities to date, drawing on over 400 academic studies and applied to around 9,000 global companies.

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

The most direct criterion for climate change is revenue-related exclusions that are applied on the fund:

- Revenue from oil and gas extraction and production >= 5%
- Revenue from thermal coal >= 5%

On top of negative revenue exclusions, climate change criteria is also incorporated into fund analysis through the CONTEXT score. For example, even if a company has revenues from oil and gas that are less than 10% of total revenues, the stock can be excluded from the fund as a result of having a poor (4th quartile) CONTEXT score relative to its sector. 'Environment' is one of the key stakeholders assessed through the CONTEXT framework, accounting for >10% weighting in CONTEXT on average across all sectors and therefore a weak score for this particular stakeholder could pull down the firm's overall CONTEXT score to the point where the stock will be excluded. As per the fund managers' holistic view of sustainability, no single climate change metric dominates the assessment and both transition risk and physical risks are considered within the CONTEXT analysis.

Some examples of the Environmental questions that CONTEXT asks include:

- What is the impact on company profitability if carbon prices rise to $100/tonne?

- Has the company set emissions or energy reduction targets?
- How exposed is the company to physical damage from climate change-induced environmental changes?

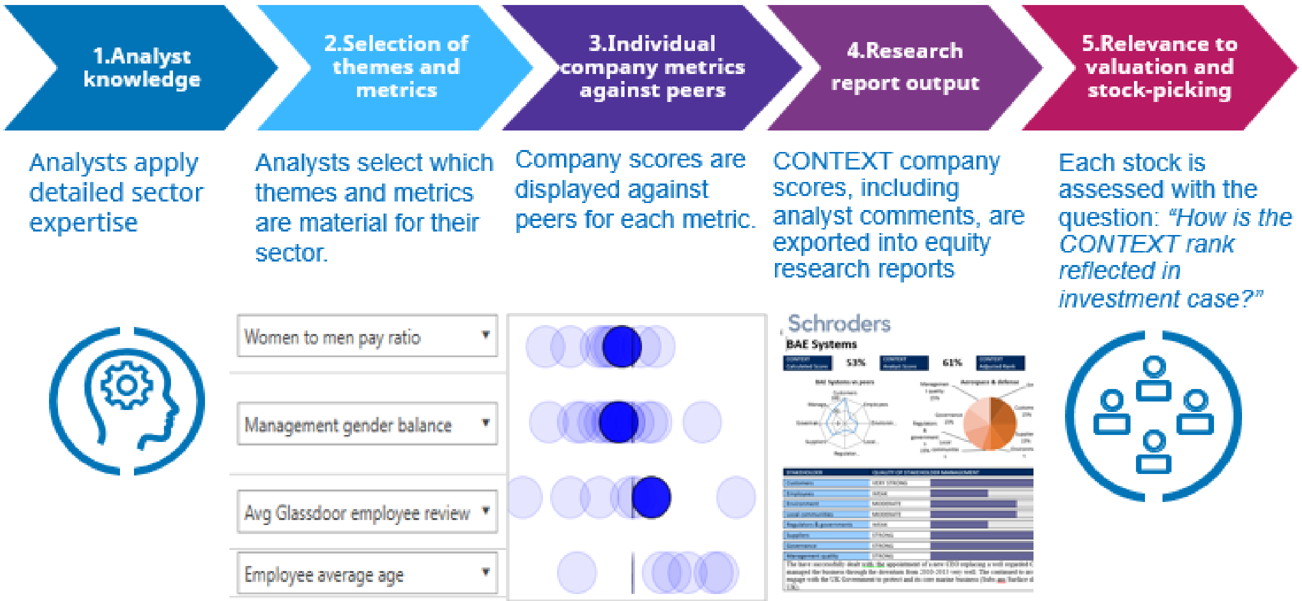
The corresponding measures used to answer these questions include:

- Carbon Value At Risk – percentage of earnings at risk from rising carbon costs
- Emissions or energy reduction targets
- Physical climate risk – average level of exposure to the physical impacts of climate change in the geographic regions in which assets are located using GermanWatch's Climate Risk Index

The team also incorporates the impacts of climate change when addressing potential upside.

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.)?

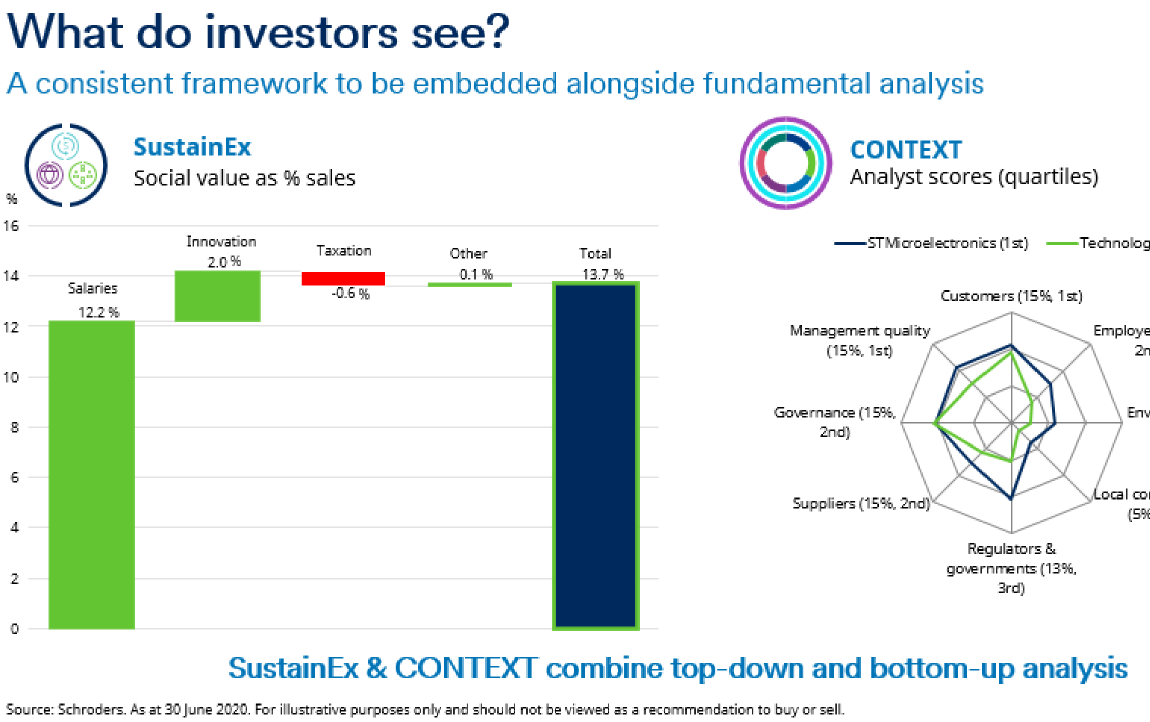
Below shows the methodology of how a CONTEXT score is derived and incorporated into an investment decision; this process makes up the ESG analysis and evaluation methodology. The tool is unique in that it is driven by questions from analysts rather than by formulas. Quantitative metrics are used to answer these questions, and the resulting scores can be compared against sector peers. This allows our fund managers to receive a valuation agnostic assessment of a firm's ESG credentials based on data deemed relevant by them.



This helps the fund managers identify points of weakness, which they can then further explore, further enhancing risk management embedded in the investment process. The investment teams are most concerned with how a company ranks against its peers, and focus on sector quartile rankings. An analyst is required to assess a stock's CONTEXT quartile ranking for every report while also understanding and incorporating the risks highlighted into our investment case. This is a part of our annual appraisal process, as CONTEXT integration is included in the personal objectives of every analyst on the team.

Using the SustainEx tool, the fund managers are able to objectively measure companies' net social and environmental impact. In the fund, the fund managers aim to have an overall net positive social value as a percentage of sales relative to the benchmark, including exclusions.

All ESG analysis is integrated into individual research notes as well as being captured in dashboards which give the portfolio managers a quick and easy way to measure the sustainability profile of the portfolio and benchmarks.



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

The Sustainable Investment team is responsible for maintaining the CONTEXT framework and developing new insights that further improve the tool.

Currently, CONTEXT includes more than 160 data points to assess a company's strengths or weaknesses. Roughly half the data is captured from company reporting (injury rates, training policies, etc.) and half from unconventional sources such as external websites and databases (employee reviews, product recalls, etc.). By drawing on unconventional sources that do not rely on company reporting, the investment team can build a more complete picture of a company's performance and reduce our reliance on corporate disclosure. Our experience is that standard corporate disclosure is often very limited, particularly among smaller companies in emerging regions. Research analysts are required to include CONTEXT scores and analysis in their research notes. This means that ESG evaluations of issuers occurs each time the company is reviewed as a holding.

If there is a controversy, it is incumbent on investors to quantify the risk to the investment thesis, company profitability and any stakeholders involved before ultimately assigning a red, amber or green rating. In the most severe cases (red) the stock will be quarantined for 3 months and during this period Schroders will engage with the company to understand who is responsible and whether adequate steps are being taken to remedy the situation. Investors will need to provide evidence (such as board change, internal investigation, changes to internal procedures) that the company is responding appropriately and to ensure thorough assessment the Sustainable Investment team will share views on best practice in similar cases. In order for the company to be deemed investible at the end of the three month period the company in question must be signed-off by the Sustainable Investment team after reviewing the company's response.

Less severe controversies (amber and green) will not be quarantined but Schroders will make engage with the company to seek assurances that issues are being addressed. For all levels of controversies investors will monitor the situation and liaise with the Sustainable Investment team to get a sense of best practice.

Section 4 Investment process

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

The majority of the portfolio is invested in businesses which are ranked within CONTEXT in the first or second quartile of their respective sectors and businesses which are deemed to be net contributors to society as per a positive score on SustainEx.

Companies that have poor ESG credentials will be considered more risky investments, and therefore we are likely to either hold a smaller weight in the portfolio or demand a larger mispriced opportunity for such investments providing there is a roadmap to improve the stocks sustainability profile.

The fund excludes companies that derive over 5% of revenue from tobacco, adult entertainment, controversial weapons, military weapons, oil and gas extraction and production, thermal coal, alcohol, gambling. In addition, the team goes beyond traditional revenue exclusions and use the proprietary tools to also exclude companies with greater than 100% negative social value to sales (SustainEx), companies that contribute to 50% of the negative absolute impact to society (SustainEx), as well as companies with 4th quartile sustainability profiles (CONTEXT).

If the team feel that a poorly rated ESG firm, as defined by a 4th quartile CONTEXT score, is working hard to improve its standards, or has an unjustified score, they will discuss this with the Sustainable Investment team to seek its inclusion in the portfolio. This is a rare occurrence, but provides the team with the ability to overrule the CONTEXT tool in extreme cases. Only 15% of the portfolio can consist of the overturned 4th quartile stocks, and the team will only invest in these stocks if there is a clear path forward for improvement. Together with the Sustainable Investment team, the fund managers will agree milestones and a program of engagement. Progress will be monitored and discussed, and if milestones are not met the team will look to sell its holding.

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

As discussed in question 3.4, climate change specific criteria is embedded in our CONTEXT tool and therefore, feeds into all portfolio construction decisions. A company's poor environmental standards will be reflected in the CONTEXT score. This could cause them to be excluded from the fund for having a 4th quartile sector ranking, but at minimum the poor score will be analysed for complete understanding. It is likely that the risk associated with such a CONTEXT score would result in a smaller weighting in the portfolio. Through negative revenue exclusions and CONTEXT quartile rankings the fund manager will consider both the risks and opportunities of climate change on an individual stock in an evidence-based manner that can be evaluated in context of overall portfolio construction. In addition, the fund managers target an above-benchmark portfolio profile for all stakeholders within CONTEXT, of which Environment, which encompasses a variety of climate change metrics, is a key one.

Across all sectors, the average weight of the environmental stakeholder on the total CONTEXT score is 12%.

Some examples of the metrics measured by CONTEXT in connection to the Environment stakeholder include:

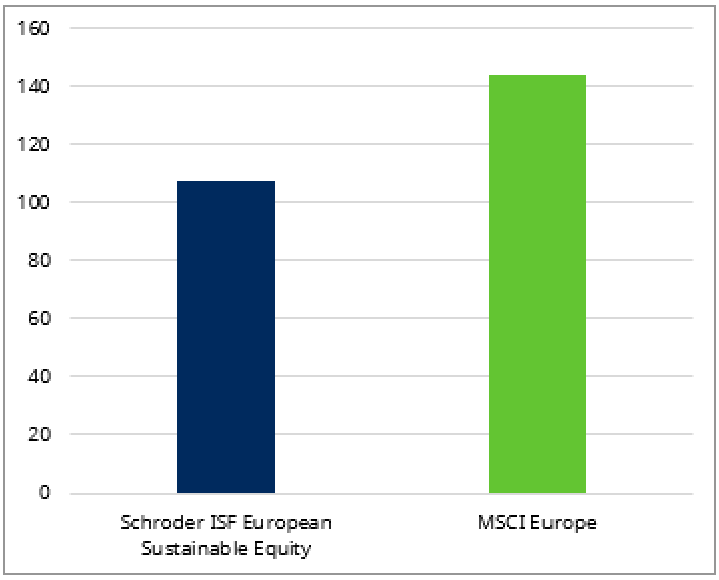
- Carbon Value at Risk
- Emissions or energy reduction targets
- Energy cost exposure
- CDP performance band
- Exposure to the physical risk of climate change
- ISO environmental certification
- Water cost exposure
- Percentage of water recycled
- NOX (nitrous)/SOX (sulphurous oxide) intensity

The third way the European Blend team incorporates criteria specific to climate change is through the proprietary tool SustainEx. Carbon emissions is one of the metrics measured, and the tool is able to provide our fund managers with an estimated social value, as a percentage of sales. The fund managers use this tool to get a top-down perspective of the impact of carbon emissions at a cross-sector and portfolio level.

The portfolio should always score well relative to the benchmark on primary climate metrics as evidenced below.

Low Carbon Footprint vs MSCI Europe Index

Tons of CO_2 per $mn sales



Source: Schroders, Refinitiv ESG data, MSCI, as at 31 August 2020.

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

The CONTEXT & SustainEx tools cover every issuer in the portfolio. Analysts are required to include an analysis of a firm's ESG rankings in their research note, including weaknesses and whether such weaknesses are incorporated in the valuation.

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

There have been no material changes to the framework or the investment process but the advantage of having proprietary sustainability tools is that the data and outcomes are regularly evolving and being reviewed by the team.

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

Yes. The purpose of the strategy is to have a positive impact on both society and corporate behaviour whilst aiming to outperform the MSCI Europe index.

The SustainEx tool aids us in quantifying whether individual companies are benefiting or detracting from society based on 70+ data points, sourced from 400+ pieces of academic research. The tool allows us to measure a range of social impacts like salaries, connectivity and employee training whilst also quantifying negative externalities such as those caused by addiction. The SustainEx output is complimented by a bottom-up assessment of a businesses partnership with employees and local communities. These areas are key aspects of our sustainability analysis and this is also quantitatively measured using our other sustainability system CONTEXT.

The fund will not invest in businesses which generate more than 5% of revenues from gambling, alcohol or tobacco.

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?

No, the fund does not use derivative instruments.

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

The fund does not invest in mutual funds.

Section 5 ESG controls

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

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.

ESG exclusions are coded into Aladdin to ensure that pre-trade compliance correctly flags the securities that should not enter the portfolio. The exclusion part of the process is managed independently from the investment team. 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.

Exclusions include the use the proprietary tools to also exclude companies with greater than 100% negative social value to sales (SustainEx), companies that contribute to 50% of the negative absolute impact to society (SustainEx), as well as companies with 4th quartile sustainability profiles (CONTEXT). There are also exclusions based on revenue thresholds which are evaluated quarterly by the Sustainable Investment team using MSCI's revenue data.

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.

The analysts are required to incorporate a CONTEXT score in each piece of research. When establishing this score, the analyst can overwrite the stakeholder scores if they do not think it properly reflects the company. This provides a way of auditing the data in CONTEXT to ensure it is accurate. CONTEXT data is refreshed quarterly.

The team holds monthly meetings with the Sustainable Investment team. At these meetings, the investment team is given the opportunity to justify why a stock with a 4th quartile CONTEXT score based on the Sustainable Investment team's analysis should be allowed to enter the portfolio. The Sustainable Investment team has the right to veto any of the these requests. Minutes are recorded at these meetings to document these discussions.

If there is a controversy, it is incumbent on investors to quantify the risk to the investment thesis, profitability and any stakeholders involved before ultimately assigning a red, amber or green rating. In the most severe cases (red) the stock will be quarantined for 3 months and during this period Schroders will engage with the company to understand who is responsible and whether adequate steps are being taken to remedy the situation. Investors will need to provide evidence (such as board change, internal investigation, changes to internal procedures) that the company is responding appropriately and to ensure thorough assessment the Sustainable Investment team will share views on best practice in similar cases. In order for the company to be deemed investible at the end of the three month period the company in question must be signed-off by the Sustainable Investment team after reviewing the company's response.

Less severe controversies (amber and green) will not be quarantined but Schroders will make contact with the company to seeks assurances that issues are being addressed. For all levels of controversies investors will monitor the situation and liaise with the Sustainable Investment team to get a sense of best practice.

Section 6 Impact measures and ESG reporting

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

While the fund managers do not target specific ESG metrics, they recognise the need to demonstrate the ESG quality of the fund. The fund's ESG quality can be assessed in a number of ways:

(1) The distribution of the CONTEXT sector quartile rankings using scores from the European Blend Equity analyst's scores. These can then be compared versus the Sustainable Investment team's CONTEXT scores for further analysis.

(2) Whether the portfolio's aggregate social value to sales as measured by SustainEx will be a net positive to society on an absolute basis and relative to the benchmark.

(3) The fund should demonstrate, in aggregate, positive non-financial characteristics relative to the fund benchmark based on the sustainability metrics used for the purpose of fund reporting. This is believed to infer a bias to positive ESG scores given that the sustainability focus of the fund. The revenue exclusions are the biggest contributor to having a portfolio with strong ESG credentials. The incorporation of CONTEXT analysis and use of the SustainEx tool, lead the fund managers towards stocks with positive ESG characteristics, even against a benchmark that was adjusted for our exclusions.

(4) The fund's third party ESG characteristics are routinely monitored to ensure the portfolio exhibits a positive ESG tilt relative to benchmark based on a recognised and independent assessment. Although the stocks are not selected for the fund based on third-party ESG research - given the arguable shortcomings of such measures – in general, the investment team expect nevertheless to observe a positive skew based on third party measures of ESG. In this context, the investment desk monitors MSCI ESG ratings (overall and its subcomponents) accessed via Style Research. Materially lower MSCI ESG characteristics for the fund would be investigated and discussed to understand why the output differs from our CONTEXT analysis.

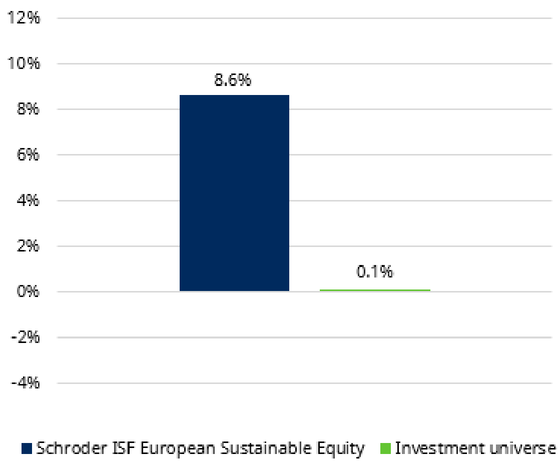
6.2 What ESG indicators are used by the fund(s)?

The fund will consistently score well on a range of ESG metrics. Linked to the objectives noted above, we have attached the outcomes of our primary ESG tools as well as third party validation in relation to climate measures and MSCI scores.

CONTEXT and SustainEx reporting

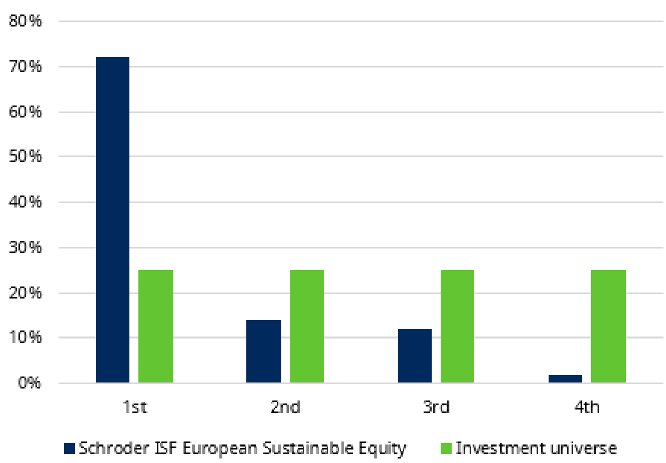
SustainEx score (Measuring impact on society)

Portfolio and benchmark social value as % sales



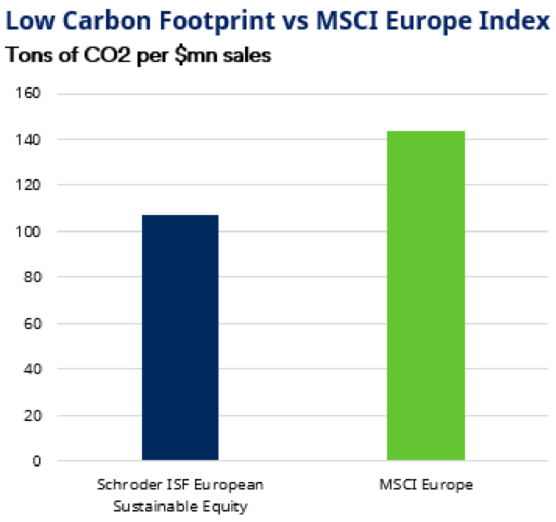
CONTEXT score (*Assessing relationships with stakeholders*)

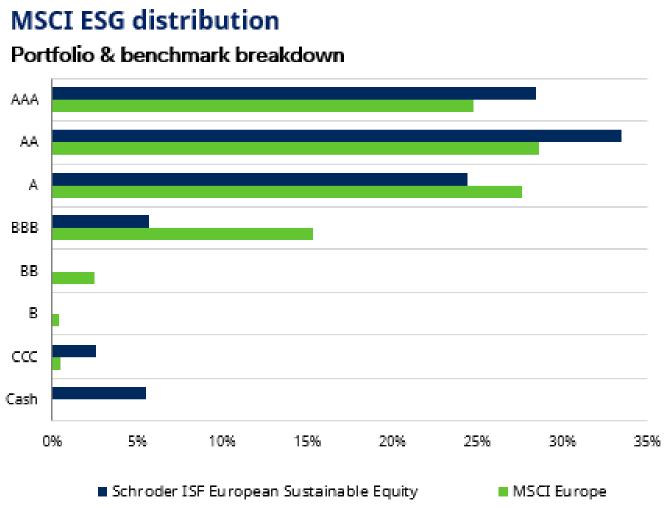
Portfolio and benchmark weights by CONTEXT quartile



Source: Schroders. As at 31 August 2020. Investment universe = MSCI Europe index.

Climate reporting & MSCI ESG distribution





Source: Schroders, Refinitiv ESG data, MSCI, as at 31 August 2020.

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 Schroders produces to provide clients with information about the SRI approach of the fund:

Monthly fact sheet, which includes:

– A valuation of assets
– Asset allocation positioning
– Financial ratios
– The largest individual stock positions
– Portfolio and benchmark performance

Quarterly investment report, which includes:

– A valuation of assets
– Asset allocation positioning
– Portfolio and benchmark performance
– Performance attribution analysis with an explanation of the factors contributing to the portfolio's performance
– Comprehensive market review and index returns
– Market outlook commentary with an emphasis on our investment policy
– Key ESG engagements
– Portfolio activity including to ESG considerations

Quarterly sustainability report, which includes:

– Environmental performance measures
– Social performance measures
– Human rights performance measures
– Governance performance measures
– European SRI Transparency Code 19
– Most significant engagements by topic

- Votes cast with or against management

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

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

- Schroders' ESG Policy
- Statement of compliance with the UK Stewardship Code
- Statement of compliance with the UN Principles for Responsible Investment
- Details of industry involvement
- Quarterly Sustainable Investment Report – 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 European Sustainable Equity
The following risks may affect fund performance. Counterparty risk: The counterparty to a derivative or other contractual agreement or synthetic financial product could become unable to honour its commitments to the fund, potentially creating a partial or total loss for the fund. Currency risk: The fund can be exposed to different currencies. Changes in foreign exchange rates could create losses. Derivatives risk: A derivative may not perform as expected, and may create losses greater than the cost of the derivative. Equity risk: Equity prices fluctuate daily, based on many factors including general, economic, industry or company news. Leverage risk: The fund uses derivatives for leverage, which makes it more sensitive to certain market or interest rate movements and may cause above-average volatility and risk of loss. Liquidity risk: In difficult market conditions, the fund may not be able to sell a security for full value or at all. This could affect performance and could cause the fund to defer or suspend redemptions of its shares. Operational risk: Failures at service providers could lead to disruptions of fund operations or losses.