The European SRI Transparency logo signifies that Schroders commits to provide accurate, adequate and timely information to enable stakeholders, in particular consumers, to understand the Sustainable Responsible Investment (SRI) policies and practices relating to the fund. Detailed information about the European SRI Transparency Code can be found on www.eurosif.org, and information of the SRI policies and practices of Schroder ISF Global Sustainable Convertible Bond 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 ........................................................................................................ 3
Section 1  List of funds covered by the Code ........................................................................... 4
Section 2  General information about the fund management company ................................. 5
Section 3  General information about the SRI fund that comes under the scope of
           the Code ......................................................................................................................... 9
Section 4  Investment process ................................................................................................ 14
Section 5  ESG controls ......................................................................................................... 17
Section 6  Impact measures and ESG reporting ..................................................................... 18
Statement of Commitment

Sustainable and Responsible Investing 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 Investment Management 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 2019
Section 1  List of funds covered by the Code

Fund name:
- Schroder ISF Global Sustainable Convertible Bond

Dominant/preferred SRI strategy (Please choose a maximum of 2 strategies):
- ESG integration

Asset class:
- Balanced global convertible bonds

Exclusions:
- Controversial weapons
- Alcohol
- Tobacco
- Weapons
- Gambling
- Adult entertainment
- Thermal coal
- Conventional and unconventional oil & gas
- Nuclear energy
- Genetically Modified Organisms

Fund capital as at 30 June 2019:
- EUR 17.7 million

Links to relevant documents:
- KIID: https://www.schroders.com/getfunddocument/?oid=1.9.3135610
- Prospectus: http://www.schroders.com/getfunddocument?oid=1.9.1755
- Fund fact sheet: https://www.schroders.com/getfunddocument/?oid=1.9.3233698
- Monthly Fund update: https://www.schroders.com/getfunddocument/?oid=1.9.3165268
**Section 2  General information about the fund management company**

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

Schroder Investment Management (Switzerland) AG

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 for 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 twenty 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 – 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 which 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 company?

While ESG issues are sometimes difficult to quantify, we recognise 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. Therefore, we firmly believe 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.

The fund managers believe that climate change will be a defining driver of the global economy, society and financial markets over coming years, decades and beyond. Whether the global economy is rebuilt on less carbon intensive foundations or the temperature continues to escalate, 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.

More recently the team launched the Climate Progress Dashboard in July 2017. The dashboard 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 we are heading for a rise closer to 4°C than the 2°C 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/](http://www.schroders.com/en/lu/professional-investor/featured/climate-change-dashboard/).

Schroders has 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 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/](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’ cashflows 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/](http://www.schroders.com/en/about-us/corporate-responsibility/sustainability/climate-progress-dashboard/fossil-fuel-producers/)).

Most recently, we have developed a proprietary model to help our analysts, fund managers and clients measure and manage the physical risks climate change poses. Effectively, 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 under 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/](https://www.schroders.com/en/sysglobalassets/digital/insights/2018/thought-leadership/climate-change-the-forgotten-physical-risks_final.pdf/).

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

Schroders has an experienced and well-resourced Sustainable Investment team, which has been embedded as part of our overall investment processes for some time. The team comprises 17 dedicated ESG professionals who are responsible for ESG specialist engagement, voting and facilitating ESG integration into the investment process across teams and asset classes, ESG data management, sustainability client reporting, and product development. Together the team has over 160 years’ combined investment experience.
2.6  Is the company involved in any responsible investment initiatives?

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

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

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

Below we provide examples of some of these important initiatives.

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

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

Schroders fully supports the following international conventions:

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

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

We recognise 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 cluster munitions and anti-personnel mines exclusions. We implement a wide range of negative screens and exclusions according to specific ethical criteria requested by our clients. As at 31 December 2018, we managed £47 billion of assets to which such ethical screens are applied.

Integrated means sustainability is a building block of the investment process. It is robust, systematic and there is a commitment to engagement and stewardship. We seek to integrate ESG considerations across all of our investment desks. As of 30 June 2019, Schroders managed £166.1 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 2019, Schroders managed £1.29 billion of sustainable assets.
Section 3 General information about the SRI fund that comes under the scope of the Code

3.1 What is the fund aiming to achieve by integrating ESG factors?

The Schroder ISF Global Sustainable Convertible Bond aims to offer the typical risk/return characteristics of highly convex balanced convertible bonds but with strict exclusions and ESG factors integrated within the investment process.

We believe that there is a two-fold impact of ESG on fund performance. First of all, we apply a strict exclusion approach. Our aim is to strengthen the protective qualities and minimise downside risk of the portfolio by excluding the lowest scoring ESG companies. Secondly, we believe that a best in class approach which singles out better-run companies with a stronger focus on stakeholders, including regulators and the environment, will have better long-term performance. To this extent, we exclude the bottom quintile of companies relative to their peers and strategically overweight the top quintile.

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

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 key stakeholders and the sustainability of its business model. It is designed to support our team’s understanding of the companies in which they invest, by providing a framework to identify material ESG issues and data to assess companies’ strengths and weaknesses in those areas relative to peers. CONTEXT moves our analysis of ESG themes out of the anecdotal and into a quantitative framework.

The tool goes beyond a simple tick box approach – it is interactive and highly customisable. It is based on the principle that business sustainability rests on companies’ abilities to adapt to the changing pressures exerted by the stakeholders they rely on.

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 anticipates 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 (on which the investment team can capitalise) have already been made.

CONTEXT covers 98% of our investment universe. We are adding companies to this research framework on a quarterly basis. Hence, for new issues we also use data from MSCI ESG research which we verify and compare with data from Sustainalytics as well as RobecoSam.

We currently also subscribe or have access to the following external data sources: Bloomberg, 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)?

Our convertible bond ESG process is a multi-step approach to fully integrate ESG criteria into the investment process:

- **Norms-based screening**: Schroders fully supports the international conventions on Cluster Munitions and Anti-Personnel Mines (APM), and we will not knowingly hold any security that will derive revenue from
these sources. There is no firm-wide policy around norms. As a Swiss-based investment desk, we apply the convention of the SVVK. The founding members of SVVK-ASIR (Swiss Association for Responsible Investment) provide their services for the benefit of a large and representative part of the Swiss population. It is thus natural that the laws and regulations resulting from the democratic consensus as well as international agreements and conventions (e.g. the Convention on Cluster Munitions) should be taken as the basis for the definition of objective and recognized ESG (Environmental, Social and Governance) criteria. The international agreements concluded by Switzerland also largely align with the 10 principles of the United Nations Global Compact, to which more than 8,000 companies from 145 countries belong.

- **Exclusion of controversial sectors:** We exclude companies from our universe with material exposure to alcohol, tobacco, controversial weapons, gambling, adult entertainment, and fossil fuels, as well as nuclear energy.

- **Exclusion of ESG laggards:** We use a best in class approach based on industry specific metrics. Our aim is to strengthen the protective qualities and minimise downside risk of the portfolio by excluding the lowest scoring ESG companies.

- **Overweight of top scoring ESG companies:** We believe companies that are well-managed, with regard to the environment and society, will deliver better performance. There are six stakeholders on which a company is scored – 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. Our in-house Sustainable Investment team spent a significant length of time creating this tool, sourcing the data and engaging in discussion with Schroders analysts to provide a framework for the most pressing concerns facing each stakeholder group. 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.
3.4 What principles and criteria linked to climate change are taken into account in the fund?

The scale of the threat facing the fossil fuel industry is significant. Meeting international climate change targets to limit the rise in temperatures to 2°C will require more change and more disruption than we have seen so far and fossil fuel producers are in the cross hairs.

Coal producers will bear the brunt of decarbonisation’s impact. Coal is the most carbon-intensive fossil fuel, generating twice as much carbon as gas to produce the same amount of energy. The Fund excludes any company that generates more than 5% of revenues from thermal coal.

While conventional oil and gas are less carbon intensive than coal, they are major contributors to global greenhouse gas emissions and their use will have to fall significantly in the future. The Fund excludes any company that generates more than 5% of revenues from conventional oil and gas extraction.

Unconventional oil and gas, such as tar sands, oil shale and shale gas, Arctic onshore and offshore, require more energy-intensive production methods compared to conventional oil and gas. There are also health and environmental impacts through air, water, land and soil pollution. The Fund excludes any company that generates more than 0% of revenues from unconventional oil and gas extraction.

Climate change is an integral part of the ESG research at Schroders and has a direct impact on CONTEXT scores. We use CONTEXT scores as an input to managing our funds and there are crucial data points we take into consideration with regard to climate change as part of the environmental pillar. These include:

- Carbon Value at Risk (percentage of earnings at risk from rising carbon costs)
- The average level of exposure to the physical impacts of climate change in the geographic regions in which assets are located
- Certification according to ISO 14001 standards
- Whether there is a set target for energy/emissions reduction
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.)?

The Schroder convertible bond (CB) ESG score is based on the three pillars of ESG (environmental, social and governance). We are looking at a plethora of almost 100 distinct variables. It is important to note that these variables will come with a different weight and hence a different impact depending on the sector of a company in question – for example, the direct carbon emissions of a utility company or the use of carbon-emitting travel for a bank or financial company.

The key issues considered as part of the environmental pillar are climate change (GHG emissions, production carbon footprint), natural capital (regional water stress and land use), pollution and waste (toxic emissions and waste) as well as environmental opportunities (clean tech, use of green buildings and renewable energy).

Looking at the social pillar, the focus is on human capital (health and safety, fatality rates, human capital development and training, labour standards throughout the supply chain), product liability (product safety, chemical safety, safety of financial products, privacy and data security), as well as stakeholder opposition and controversies.

The third pillar of governance focuses on corporate governance (board composition and stability, pay structure and incentives, company ownership and financial accounting) as well as overall corporate behaviour (business ethics, anti-competitive practices, corruption, financial stability and tax transparency).

We apply an ESG score for each company, ranging from 0% to 100%.

In order to ensure a strict adaption of a best in class approach, we define a global broad market based universe as our basis for analysis. This universe reflects a global diversified equity market allocation and is not limited to convertible bond issuers only. In a next step, we apply a normal distribution to this universe. Finally, we exclude the bottom 20% of companies based on the calculated ESG score. This way, we eliminate the laggards with very low ESG scores between 0% to 20%.

On the other side of the spectrum, we aim to apply a systematic overweight to ESG leaders with an ESG score of more than 80%.

Relative to the non-ESG filtered universe, our strict ESG approach results in a significant 35% reduction of the investment universe.

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

The convertible bond desk has direct access to Nexus, our in-house research platform. We integrate ESG scores into our investment process on a daily basis, similar to credit and equity information. This information is used in our internal scoreboard model, which is updated on a weekly basis for the entire

---

1 CONTEXT scores companies relative to sector peers. Hence, the choice of universe is important. We have decided to use the broadest available universe for this scaling process independent of whether the companies have issued convertibles.
universe. Any ad-hoc analysis will source the latest input factors when modelling a convertible bond to ensure that real time data is used.

In order to avoid selling under pressure, the fund can retain convertible bonds after a sudden downgrade. The overall part of unrated, or low-rated names is always limited to 10% of the fund.

Our Sustainable Investment team acts as a central point of liaison for investors across Schroders who may have exposure to the company through a variety of instruments. Our ESG specialists are responsible for assessing the impact of the incident. They draw on a wide body of information, ranging from direct contact with the company, to insights gained from our Data Insights Unit. Together with investors, they will agree a programme of engagement to understand why the incident occurred, and what remedial steps have been/will be taken to prevent the incident from reoccurring.
Section 4  Investment process

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

In order to ensure a strict adaption of a best in class approach, we start by excluding the bottom 20% of companies. This way, we eliminate the laggards with very low ESG scores between 0% to 20%. For companies above this threshold, but with a lower than 25% overall score we take additional steps to be fully convinced that the companies are sufficiently better than the 20% cut-off line. Access to RobecoSam and Sustainalytics data is one step, engagement by our London Sustainable Investment team is another.

On the other side of the spectrum, we aim to apply a systematic overweight to ESG champions with an ESG score of more than 80%.

Relative to the non-ESG filtered universe, our strict ESG approach results in a significant 35% reduction of the investment universe.

Our convexity investment approach is based on combining value of the convertible bond features with a strong momentum on the equity underlyer. Here, we give scores from -2 for a very expensive convertible to a +2 for a above-average protective bondfloor and strong upside. The same methodology applies to equity momentum and the companies’ ESG scores.

Our dedicated ESG strategy, Schroder ISF Global Sustainable Convertible Bond, cannot invest in -2 ESG rated convertibles.
Total score sums up the full set of convexity value, equity momentum, and ESG input into a single score.

The CB score is the result of our modelling. A high score indicates a cheaper, more convex convertible structure with a more solid the bondfloor.

The ESG score is based on CONTEXT. We align the 0% to 100% scores to match the CB desk -2 to +2 scorecard values.

All bonds in the universe carry trigger levels for review, based upon equity momentum and impact of convertible bond structure.

Source: Schroders, for illustrative purposes only.

4.2 How are criteria specific to climate change integrated into portfolio construction?
At the fund level, we use CONTEXT scores. Some of the observations and data points leading to the overall environment score of CONTEXT are specific to climate change (please also see question 3.4).

Focusing on typical sectors with regard to climate change, CONTEXT uses the following neutral weights in our stakeholder model for utilities and oil & gas (in brackets): Customers 25% (0%), Employees 10% (20%), Environment 15% (24%), Local communities 9% (7%), Regulators & governments 7% (12%), Suppliers 4% (7%), Governance 15% (15%), and Management quality 15% (15%).

Please note that our integrated ESG process would only allow utilities with non fossil fuel, non nuclear activities.

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

4.4 Has the ESG evaluation or investment process changed in the last 12 months?
No, this was fund only launched in December 2018.

4.5 Is a part of the fund(s) invested in entities pursuing strong social goals/social enterprises?
The fund does not explicitly target entities pursuing strong social goals. Any positive social impact is an additional outcome of the strategy, rather than a primary objective when building the portfolio.

However, companies that have a strong corporate culture, are managed for the long term, and consider the impact of their operations and policies on stakeholders will typically demonstrate positive ‘social’ and non-financial attributes.

4.6 Does (do) the fund(s) engage in securities lending activities?
No, the fund does not engage in securities lending.

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

We are fully currency hedged and use fx forwards.

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?

On the Schroders Convertibles Desk, we regard ESG restrictions similar to other guidelines and limits within the fund’s risk profile. The internal guidelines are checked by our independent risk management function.

We use Aladdin as our compliance monitoring system globally. 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 pre- and post-trade compliance correctly flags the securities that should not enter the portfolio. The coding and monitoring of investment risk restrictions for individual fund and client mandates is the responsibility of Portfolio Compliance team within the independent Investment Risk function.

The convertible bond ESG scores are available on our main trading and reporting systems, Fixed Income Analytics (FIA) and Aladdin (Portfolio Construction, Compliance Dashboard). This way, our independent Risk Management function have easy oversight and can escalate any potential breach.
Section 6  Impact measures and ESG reporting

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

Best in class approaches are traditionally based on all companies in a given sector. A normal distribution is applied with the average company returning a 50% ESG score. Not every equity issuer also has convertible bonds outstanding. Our research shows that the average company issuing convertible bonds may differ in ESG score from the average equity issuer. Currently, the convertible bond universe can be characterised by a slightly above-average ESG score.

Our ESG filter, combined with the stable overweight in top ESG companies, has a significant impact on the overall ESG outcome of our fund investment. **We have set a transparent and strategic target to keep the overall ESG score above 50% at all times.**

Additionally, we aim to “outperform” a broad, non ESG universe of convertible bonds as defined by the Thomson Reuters Global convertible Bond index in the range of 20 percentage points.

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

We focus on our proprietary CONTEXT scores. There are six stakeholders on which a company is scored – Customers, Employees, Environment, Local Communities, Regulators and Suppliers. We also consider Governance and Management Quality.

The employees stakeholder group includes more than 20 different indicators, including gender balance in management, gender pay gap, salaries relative to regional averages, training expenses, turnover and fatality rates.

For customers, we look at metrics such as product recall frequency, product safety assessments, customer reviews, social media popularity, R&D intensity, brand value and food health scores.

There are currently 20 indicators for the analysis of suppliers which include supply chain auditing, FSC certification and how companies are managing forced labour risks in its supply chain.

Turning to the environment stakeholder group, there are more than 30 indicators ranging from energy use, GHG emissions, waste water exposure, and energy carbon intensity, to being a member in the sustainable packaging coalition and having an energy efficiency and biodiversity policy.

For local communities, we consider indicators such as the overall value of corporate donations, the existence of a community engagement programme, and a commitment to maintaining human rights.

For regulators & governments we look a range of indicators including lobbying spending, the effective tax rate, whistleblower protection, and pension deficits.

Finally, we look at governance, we consider indicators ranging from board independence, number of board meetings, directors average age and tenure, to the separation of CEO from chairman roles.
6.3 What communication resources are used to provide investors with information about the SRI management of the fund(s)?

Monthly fund updates which include a market statement, portfolio key statistics, the overall ESG score of the fund as well as our quarterly sustainability report, which includes:
- Environmental performance measures, including metric tonnes per every $1m invested into our strategy as well as policies on energy efficiency and emissions reduction
- Social performance measures, including employee fatalities
- Human rights performance measures
- Governance performance measures, including the percentage of independent board members and the CEO-Chairman separation
- Most significant engagements by topic
- Votes cast with or against management.

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

Additionally, 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 – 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 Exclusions
- Sustainability insights on a range of environmental, social and governance factors
- 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.

Please note that as convertible bondholders we do not have a voting right at annual general meetings. Hence, the engagement undertaken by our dedicated Sustainable Investment team is crucial.
Schroder ISF Global Sustainable Convertible Bond: Risk Factors

This document does not constitute an offer to anyone, or a solicitation by anyone, to subscribe for shares of Schroder International Selection Fund (the “Company”). Nothing in this document should be construed as advice and is therefore not a recommendation to buy or sell shares.

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

An investment in the Company entails risks, which are fully described in the prospectus.

Past performance is not a reliable indicator of future results, prices of shares and the income from them may fall as well as rise and investors may not get the amount originally invested.

Schroders has expressed its own views and opinions in this document and these may change.

Schroders will be a data controller in respect of your personal data. For information on how Schroders might process your personal data, please view our Privacy Policy available at www.schroders.com/en/privacy-policy or on request should you not have access to this webpage.

This document is issued by Schroder Investment Management (Europe) S.A., 5, rue Höhenhof, L-1736 Senningerberg, Luxembourg. Registered No. B 37.799.

For your security, communications may be taped or monitored.

Risk considerations

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. 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.

Third party data disclaimer
Third party data is owned or licensed by the data provider and may not be reproduced or extracted and used for any other purpose without the data provider’s consent. Third party data is provided without any warranties of any kind. The data provider and issuer of the document shall have no liability in connection with the third party data. The Prospectus and/or www.schroders.ch contains additional disclaimers which apply to the third party data.