Schroder International Selection Fund
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Schroders

IMPORTANT: This letter is important and requires your immediate attention. If you have any questions about the content of this letter, you should seek independent professional advice. The directors of Schroder International Selection Fund accept full responsibility for the accuracy of the information contained in this letter and confirm, having made all reasonable enquiries, that to the best of our knowledge and belief there are no other facts the omission of which would make any statement misleading.

8 July 2016

Dear Shareholder,

Schroder International Selection Fund – Japanese Equity Alpha
merger with Schroder International Selection Fund – Japanese Equity

We are writing to advise you that on 17 August 2016 (the **Effective Date**), Schroder International Selection Fund – Japanese Equity Alpha (the **Merging Fund**) will merge with Schroder International Selection Fund – Japanese Equity (the **Receiving Fund**) (the **Merger**). Shareholders in the Merging Fund will receive the equivalent value of shares in the Receiving Fund in place of their current shares in the Merging Fund.

The Merger was authorized by the Commission de Surveillance du Secteur Financier on 25 January 2016.

The Merging Fund is no longer allowed to be marketed to the public in Hong Kong, and subscriptions and switches from new investors into the Merging Fund will not be accepted with effect from the date of this notice.

(A) Reasons for the Merger

In accordance with its power to decide whether the Merger is in the interest of shareholders as provided in article 5 of the articles of incorporation of Schroder International Selection Fund, the board of directors of Schroder International Selection Fund, after considerable analysis and review, has concluded that, given the similarity in strategy between the Merging Fund and the Receiving Fund, shareholders in the Merging Fund will benefit from a merger with the Receiving Fund. Shareholders in the Merging Fund will be merged into a sub-fund which will give shareholders access to similar capital growth potential with a similar risk profile but at a lower ongoing charge. The fund size of the Receiving Fund is larger than that of the Merging Fund. The Merging Fund has approximately JPY 2,208 million under management as of 31 May 2016 while the Receiving Fund has approximately JPY 334,126 million under management as of the same date. The larger fund size of the Receiving Fund enables shareholders of the Merging Fund to benefit from economy of scale and access to lower ongoing charges after the Merger.

Although the two sub-funds focus on different target companies, the Receiving Fund will operate under similar investment criteria and strategy as the Merging Fund but with a broader investment universe. As a result of the Merger, there will be no change of legal entities acting as investment manager or of the investment teams which currently manage the Merging Fund.

(B) Summary of key similarities and differences of the Merging Fund and the Receiving Fund

(i) The key similarities of the Merging Fund and the Receiving Fund are as follows:

— *Investment objective*: Both funds have the primary objective to provide capital growth through investment in shares in Japanese companies;

— *Key operators*: Both funds have the same investment manager and are managed by the same investment teams;

— *Risk profile*: Both funds have a similar risk profile.

(ii) The key differences of the Merging Fund and the Receiving Fund are as follows:

— *Investment strategy*: The Receiving Fund has a more diversified portfolio compared to the Merging Fund which is managed in a more concentrated manner, and the Merging Fund has a focus on small and medium sized companies while the Receiving Fund has no bias to company size;

— *Management fee*: The investment management fee of A share class of the Merging Fund is 1.50% per annum of the net asset value while the investment management fee of A share class of the Receiving Fund is 1.25% per annum of the net asset value;

— *Performance fee:* Performance fee is chargeable to the Merging Fund while no performance fee is chargeable to the Receiving Fund.

(iii) Fees and Charges

Except for the key differences set out in this notice, particularly as highlighted in paragraph B(ii) above and the Appendix, other key features of A share class of both funds are identical. Please refer to the Appendix for further details.

The table below summarises the annual investment management charge (the **AMC**) and ongoing charges (the **OGC**) for the share classes of the Merging Fund and the Receiving Fund. Please note that the OGC includes the AMC and all other applicable charges and expenses.

Share class	**Merging Fund**			**Receiving Fund**	
	AMC	**OGC without incorporating the performance fee**[1]	**OGC incorporating the performance fee**[1]	**AMC**	**OGC**[2]
A	1.50%	1.94%	1.94%	1.25%	1.66%

A key features comparison table of the Merging Fund and the Receiving Fund (including the share class changes) can be found in the Appendix. For the avoidance of doubt, the A share class of the Receiving Fund is not subject to any performance fee.

(C) Expected impact of the Merger

It is expected that the Merger will have a favourable impact on the shareholders of the Merging Fund as the Merger will give shareholders of the Merging Fund access to similar capital growth potential with a similar risk profile but at a lower ongoing charge due to larger fund size. Please note, however, that there is a risk that significant redemption in the Merging Fund may occur prior to the Merger, which may reduce the assets received by the Receiving Fund through the Merger.

[1] The OGC is based on the expenses for the year ended 31 December 2015. This figure may vary from year to year. Please note that the Merging Fund did not meet the requirement for charging performance fee for the financial year ended 31 December 2015.
[2] The OGC is based on the expenses for the year ended 31 December 2015. This figure may vary from year to year.

There are certain differences between the Merging Fund and the Receiving Fund as highlighted above and as set out in the Appendix, which you should also consider carefully.

(D) Mechanism of the Merger

(i) Share classes

Investors in the A share class of the Merging Fund will be moved into the corresponding A share class of the Receiving Fund on the Effective Date of the Merger. Except for the key differences as set out in this notice particularly as highlighted in paragraph B(ii) above and the Appendix, other key features of A share class of both funds are identical. A full summary of which Receiving Fund share classes the Merging Fund share classes will be merged into can be found in the Appendix to this letter.

(ii) Costs and expenses of the Merger

The Merging Fund has no outstanding set-up costs. The expenses incurred in the Merger, including the legal, advisory and administrative costs, will be borne by Schroder Investment Management (Luxembourg) S.A. (the **Management Company**). Costs associated with portfolio trading required to align the Merging Fund's portfolio with that of the Receiving Fund from 11 August 2016 to the Effective Date will be included in the calculation of the net asset values per share calculated for those days and will be borne by investors who choose to remain invested.

(iii) Exchange ratio, treatment of accrued income and consequences of the Merger

On the Effective Date, the net assets of the Merging Fund will be transferred to the Receiving Fund and the Merging Fund will be liquidated. For the shares of each class that they hold in the Merging Fund, shareholders will receive an equal amount by value of shares of the corresponding class (as described under section "Fees and Charges" above) in the Receiving Fund, calculated at the net asset value per share of the Merging Fund and the Receiving Fund on the Effective Date.

Any accrued income relating to the Merging Fund's shares at the time of the Merger on the Effective Date will be included in the calculation of the final net asset value per share of the Merging Fund and will be accounted for after the Merger in the net asset value per share of the Receiving Fund.

You will thus become a shareholder of the Receiving Fund, in the share class which corresponds to your current holding in the Merging Fund. A full summary of which Merging Fund share classes will be merged into which Receiving Fund share classes can be found under section "Existing and New Share Class Mapping" in the Appendix.

The first dealing day for your shares in the Receiving Fund will be 18 August 2016, the related dealing cut-off for this dealing day being 5.00 p.m. Hong Kong time on the dealing day.

(E) Rights of shareholders to redeem/switch

If you do not wish to hold shares in the Receiving Fund from the Effective Date, you have the right to redeem your holding in the Merging Fund or to switch into another Schroder fund authorized by the Securities and Futures Commission ("SFC")[3] (including any other SFC-authorized sub-funds within the Schroder International Selection Fund or other SFC-authorized funds managed by Schroders) at any time up to and including the dealing day on 10 August 2016. If you would like more information about other funds available in the Schroders fund range please contact your local Schroders office or your usual professional adviser or Schroders Investor Hotline on (+852) 2869 6968.

[3] SFC authorization is not a recommendation or endorsement of a scheme nor does it guarantee the commercial merits of a scheme or its performance. It does not mean the scheme is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

We will execute your redemption or switch instructions in accordance with the provisions of the prospectus free of charge. Please note that some distributors, paying agents, correspondent banks or similar agents might charge you transaction fees. Please also note that they might have a different dealing cut-off which is earlier than that described above, so please check with them to ensure that your instructions reach Schroder Investment Management (Hong Kong) Limited (the **Representative**) in Hong Kong before the 5.00 p.m. Hong Kong time dealing cut-off on 10 August 2016.

Subscriptions or switches into the Merging Fund from new investors in Hong Kong will not be accepted after the date of this notice. To allow sufficient time for changes to be made to regular savings plans and similar facilities, subscriptions or switches into the Merging Fund will be accepted from existing investors of regular savings plans and similar facilities until 10 August 2016 (dealing cut-off at 5.00 p.m. Hong Kong time on 10 August 2016).

(F) Tax status

The conversion of shares at the time of the Merger and / or your redemption or switch of shares prior to the Merger might affect the tax status of your investment.

Generally, the Merger should not give rise to any Hong Kong tax implications for Hong Kong shareholders. In particular, any capital gain, derived by Hong Kong shareholders as a result of the Merger should not in general be subject to Hong Kong profits tax. If any gain is derived by certain types of shareholders (for instance, dealers in securities, financial institutions and insurance companies carrying on a trade or business in Hong Kong) on the Merger, there is a higher chance that the Inland Revenue Department of Hong Kong would question whether the gain, if any, derived by these shareholders is indeed capital in nature. If the gain is considered to be trading gain rather than capital gain, it would be chargeable to profits tax (which is currently imposed at a rate of 16.5% on corporations and 15% on unincorporated businesses including individuals), if the amount is regarded as arising in or derived from Hong Kong (i.e., Hong Kong sourced profits). There is currently no general turnover, sales or value-added tax in Hong Kong. The Merger should not attract any Hong Kong stamp duty given that the share registers of both the Merging Fund and the Receiving Fund are not maintained in Hong Kong and thus the shares in the Merging Fund and the Receiving Fund should not fall within the definition of Hong Kong stocks. If you are in any doubt about your potential tax liability as a consequence of the Merger, you should recommend that you seek independent professional advice in these matters.

(G) Further information

We advise shareholders to read the Receiving Fund's Hong Kong offering documents which are available free of charge at www.schroders.com.hk[4] or upon request from the Representative. Articles of Incorporation and other material contracts and documents of the Schroder International Selection Fund are available for inspection at the Representative's registered office, located at Level 33, Two Pacific Place, 88 Queensway, Hong Kong during normal business hours.

An audit report will be prepared by the approved statutory auditor in relation to the Merger and will be available free of charge upon request from the Representative.

[4] This website has not been reviewed by the SFC.

We hope that you will choose to remain invested in the Receiving Fund after the Merger. If you would like more information, please contact your usual professional adviser or Schroders Investor Hotline on (+852) 2869 6968.

Yours faithfully,

Noel Fessey
Authorised Signatory

Nathalie Wolff
Authorised Signatory

Appendix

Key Features Comparison Table

The following is a comparison of the principal features of the Merging Fund and the Receiving Fund. Both are sub-funds of Schroder International Selection Fund. As such, both the Merging Fund and the Receiving Fund are of the same fund structure and regulatory status, have the same key operators (i.e. management company, investment manager and custodian) and financial year end (i.e. 31 December of each year) and generally, subject to the same valuation policies and investment restrictions. Full details are set out in the Hong Kong offering document.

	Merging Fund **Schroder ISF – Japanese Equity Alpha**	**Receiving Fund** **Schroder ISF – Japanese Equity**
Investment Objective and Policy	To provide capital growth primarily through investment in equity securities of Japanese companies. In order to achieve the objective the Investment Manager will invest in a select portfolio of securities, which it believes offer the best potential for future growth. Use of financial derivative instruments (FDI) The Fund may employ FDI for hedging and investment purposes. FDI can be used for instance to create market exposure. Such FDI include equity, currency, volatility or index related FDI and over-the-counter and/or exchange traded options, futures, contracts for difference, warrants, swaps, forward contracts and/or a combination of the above. The Fund may use FDI extensively to meet its specific investment objective. However, the Fund does not intend to use FDI extensively for investment purposes.	To provide capital growth primarily through investment in equity securities of Japanese companies. Use of financial derivative instruments (FDI) The Fund may employ FDI for hedging and investment purposes. FDI can be used for instance to create market exposure. Such FDI include equity, currency, volatility or index related FDI and over-the-counter and/or exchange traded options, futures, contracts for difference, warrants, swaps, forward contracts and/or a combination of the above. The Fund may use FDI extensively to meet its specific investment objective. However, the Fund does not intend to use FDI extensively for investment purposes.
Investment Strategy	The Fund is managed in a concentrated manner and has a focus on small and medium sized companies.	The Fund has a diversified portfolio and has no bias to company size.
Fund Category	Alpha Equity Funds	Mainstream Equity Funds
Fund Currency	JPY	JPY
Launch Date	27 February 2004	02 August 1993
Dividend Policy	A Accumulation share class – Dividend will not be distributed but will be reinvested into the Fund	A Accumulation share class – Dividend will not be distributed but will be reinvested into the Fund

	Merging Fund **Schroder ISF – Japanese Equity Alpha**	**Receiving Fund** **Schroder ISF – Japanese Equity**
Total Fund Size (million) as at 31 May 2016	JPY 2,208million	JPY 334,126million
Minimum Subscription Amount	A share classes: Initial – EUR 1,000 or USD 1,000 (or equivalent); Subsequent investment – EUR 1,000 or USD 1,000 (or equivalent)	A share classes: Initial – EUR 1,000 or USD 1,000(or equivalent); Subsequent investment – EUR 1,000 or USD 1,000 (or equivalent)
Dealing Cut-off Time and Settlement Periods for Subscriptions and Redemptions	Orders must be received by the Representative no later than 5:00 p.m. Hong Kong time on the dealing day in order for it to be forwarded to the Management Company for execution on that day. The settlement periods for subscription and redemption are within three business days following a dealing day.	Orders must be received by the Representative no later than 5:00 p.m. Hong Kong time on the dealing day in order for it to be forwarded to the Management Company for execution on that day. The settlement periods for subscription and redemption are within three business days following a dealing day.
Initial Charge	A: up to 5.00% of the total subscription amount (equivalent to 5.26315% of the Net Asset Value per Share)	A: up to 5.00% of the total subscription amount (equivalent to 5.26315% of the Net Asset Value per Share)
Management Fees by Share Class	A: 1.50% per annum	A: 1.25% per annum
Performance fee	Outperformance per share x average number of shares in issue during the accounting period x 15% For details, please refer to "Performance Fees" section of the Hong Kong offering document.	Nil
On-Going Charge	A: 1.94% per annum The OGC is based on the expenses for the year ended 31 December 2015. This figure may vary from year to year. Please note that the Merging Fund did not meet the requirement for charging performance fee for the financial year ended 31 December 2015.	A: 1.66% per annum The OGC is based on the expenses for the year ended 31 December 2015. This figure may vary from year to year.

Existing and New Share Class Mapping

Merging Fund **Schroder ISF – Japanese Equity Alpha**		**Receiving Fund** **Schroder ISF – Japanese Equity**	
Existing Share Class Held	**ISIN Codes**	**New Share Class to be Held**	**ISIN Codes**
A Accumulation JPY	LU0186876743	A Accumulation JPY	LU0106239873

The Representative will provide a full list of shares classes with currency denomination that are available for sale to the public in Hong Kong, upon request of an investor.