

**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. Schroder Investment Management (Europe) S.A., as the Management Company to Schroder International Selection Fund, accepts full responsibility for the accuracy of the information contained in this letter and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement misleading.**

**10 April 2024**

Dear Shareholder,

## **Schroder International Selection Fund (the "Company") – US Smaller Companies Impact (the "Fund")**

We are writing to advise you that the Fund's investment objective, policy, sustainability criteria and Article 9 pre-contractual disclosure in Appendix IV of the Company's prospectus in accordance with the Sustainable Finance Disclosure Regulation (SFDR) and Commission Delegated Regulation (EU) 2022/1288 have been updated and enhanced to better reflect the impact investment process. In addition, the S&P Smaller Cap 600 (Net TR) Lagged index (being the comparator benchmark of the Fund) has been removed.

Full details of the changes are set out in the Appendix to this letter.

### **Updates to investment objective, policy and sustainability criteria**

The Fund is classified as Article 9 under the SFDR and invests in sustainable investments, which are investments that the investment manager expects to contribute towards the advancement of an environmental or social objective linked to one or more of the UN SDGs. The Fund also holds investments that the investment manager deems to be neutral under its sustainability criteria, such as cash and money market investments and derivatives used with the aim of reducing risk (hedging) or managing the Fund more efficiently. The Fund is part of Schroders' Impact Driven strategies. As such, it applies highly selective investment criteria and references to reflect this impact investment process have been added to the investment objective, investment policy, sustainability criteria and the pre-contractual disclosure.

### **Removal of comparator benchmark**

The Fund transitioned from SFDR Article 8 to SFDR Article 9 on 16 August 2022. The S&P Small Cap 600 (Net TR) Lagged index was a comparator benchmark of the Fund before this transition, as this benchmark was appropriate when using the sustainability scoring system for Article 8 accreditation. However, following the transition of the Fund to Article 9, the Fund no longer

applies a sustainability scoring method and the S&P Small Cap 600 (Net TR) Lagged index is no longer relevant as a comparator benchmark. As such, the comparator benchmark has been removed. For the avoidance of doubt, Morningstar US Small-Cap Equity Category continues to be the comparator benchmark of the Fund.

There are no other changes to the Fund's investment style, investment philosophy, investment strategy, and the operation and/or manner in which the Fund is being managed following these changes.

All other key features of the Fund, including the risk profile and fees, will remain the same.

The Hong Kong offering documents of the Company will be revised to reflect the changes / updates as set out above and other miscellaneous changes / updates and will be available free of charge at [www.schroders.com.hk](http://www.schroders.com.hk)<sup>1</sup> or upon request from the Hong Kong Representative of the Company, Schroder Investment Management (Hong Kong) Limited.

### **Enquiries**

If you have any questions or would like more information, please contact your usual professional advisor or the Hong Kong Representative at Level 33, Two Pacific Place, 88 Queensway, Hong Kong or calling the Schroders Investor Hotline on (+852) 2869 6968.

Yours faithfully,

**The Board of Directors**

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<sup>1</sup> This website has not been reviewed by the SFC.

## Appendix

Deletions are shown as crossed out text and additions are shown as underlined text.

<b>Current Investment Objective, Investment Policy, Benchmark and Sustainability Criteria</b>	<b>New Investment Objective, Investment Policy, Benchmark and Sustainability Criteria</b>
<p><b>Investment Objective</b></p> <p>The Fund aims to provide capital growth in excess of the Russell 2000 Lagged (Net TR) index after fees have been deducted over a three to five year period <sup>Note</sup> by investing in equity and equity related securities of small-sized US companies which help to advance the UN SDGs and which the Investment Manager deems to be sustainable investments.</p> <p><sup>Note</sup> For clarification purpose, this means to exceed a medium to long term return of the stated index after fees have been deducted. The three to five year period is considered as a medium to long term period, and is the period over which an investor should assess the fund's performance.</p>	<p><b>Investment Objective</b></p> <p>The Fund aims to provide capital growth in excess of the Russell 2000 Lagged (Net TR) index after fees have been deducted over a three to five year <sup>Note</sup> period by investing in equity and equity related securities of small-sized US companies <del>which help to advance the UN SDGs</del> <u>whose activities the Investment Manager considers create positive social or environmental impact</u> and which the Investment Manager deems to be sustainable investments.</p> <p><sup>Note</sup> For clarification purpose, this means to exceed a medium to long term return of the stated index after fees have been deducted. The three to five year period is considered as a medium to long term period, and is the period over which an investor should assess the Fund's performance.</p>
<p><b>Investment Policy</b></p> <p>The Fund is actively managed and invests its assets in (i) sustainable investments, which are investments that the Investment Manager expects to contribute towards the advancement of an environmental or social objective linked to one or more of the UN SDGs, and to deliver returns to shareholders over the long term (please see the Fund Characteristics section for more details), and (ii) investments that the Investment Manager deems to be neutral under its sustainability criteria).</p> <p>The Investment Manager will select companies from a universe of eligible companies that have been determined as meeting the Investment Manager's impact criteria. The impact criteria include an assessment of the company's contribution to</p>	<p><b>Investment Policy</b></p> <p>The Fund is actively managed and invests its assets in (i) sustainable investments, which are investments that the Investment Manager expects to contribute towards the advancement of an environmental or social objective linked to one or more of the UN SDGs, and to deliver returns to shareholders over the long term (please see the Fund Characteristics section for more details), and (ii) investments that the Investment Manager deems to be neutral under its sustainability criteria <u>such as cash and Money Market Investments and derivatives used with the aim of reducing risk (hedging) or managing the Fund more efficiently</u>.</p> <p>The Investment Manager will select companies from a universe of eligible companies that have been determined as</p>

the UN SDGs. This means that the extent to which companies deliver a direct or indirect positive impact to society in order to advance the UN SDGs together with the impact that these actions could have on a company's value are considered in the assessment of companies

The Fund does not directly invest in certain activities, industries or groups of issuers above the limits listed under "Sustainability-Related Disclosure" on the Fund's webpage <https://www.schroders.com/en-lu/lu/individual/fund-centre><sup>2</sup>

The Fund invests in companies that do not cause significant environmental or social harm and have good governance practices, as determined by the Investment Manager's rating criteria (please see the Fund Characteristics section for more details).

The Investment Manager may also engage with companies held by the Fund to challenge identified areas of weakness on sustainability issues. More details on the Investment Manager's approach to sustainability and its engagement with companies are available on the webpage <https://www.schroders.com/en-lu/lu/individual/what-we-do/sustainable-investing/our-sustainable-investment-policies-disclosures-voting-reports/disclosures-and-statements/><sup>3</sup>.

The Fund invests at least two-thirds of its assets in a concentrated range of equity and equity related securities of small-sized US companies. These are companies which, at the time of purchase, are considered to be in the bottom 30% by market capitalisation of the US equities market. The Fund typically holds 40 - 60 companies.

The Fund may also invest up to one-third of its assets directly or indirectly in other securities (including other asset classes), countries, regions, industries or currencies, Investment

meeting the Investment Manager's impact criteria. The impact criteria include an assessment of the company's contribution to the UN SDGs alongside the Investment Manager's assessment of the company's impact via its proprietary impact investment management framework and tools (including an impact scorecard). ~~This means that the extent to which companies deliver a direct or indirect positive impact to society in order to advance the UN SDGs together with the impact that these actions could have on a company's value are considered in the assessment of companies.~~

The Fund is part of Schroders' Impact Driven strategies. As such, it applies highly selective investment criteria and its investment process is aligned with the Operating Principles for Impact Management which means that an assessment of impact is embedded in the steps of the investment process. All sustainable investments in the Fund are subject to this framework.

The Fund does not directly invest in certain activities, industries or groups of issuers above the limits listed under "Sustainability-Related Disclosure" on the Fund's webpage <https://www.schroders.com/en-lu/lu/individual/fund-centre><sup>4</sup>

The Fund invests in companies that do not cause significant environmental or social harm and have good governance practices, as determined by the Investment Manager's rating criteria (please see the Fund Characteristics section for more details).

The Investment Manager may also engage with companies held by the Fund to ~~challenge identified areas of weakness on~~ seek to improve sustainability practices and enhance social and environmental impacts generated by underlying investee companies. More details on the Investment Manager's approach to sustainability and its

<sup>2</sup> This website has not been reviewed by the SFC.

<sup>3</sup> This website has not been reviewed by the SFC.

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<p>Funds, warrants and Money Market Investments, and hold cash (subject to the restrictions provided in Appendix I).</p> <p>The Fund may use derivatives with the aim of achieving investment gains, reducing risk or managing the Fund more efficiently.</p>	<p>engagement with companies are available on the webpage <a href="https://www.schroders.com/en-lu/lu/individual/what-we-do/sustainable-investing/our-sustainable-investment-policies-disclosures-voting-reports/disclosures-and-statements/">https://www.schroders.com/en-lu/lu/individual/what-we-do/sustainable-investing/our-sustainable-investment-policies-disclosures-voting-reports/disclosures-and-statements/</a><sup>5</sup>.</p> <p>The Fund invests at least two-thirds of its assets in a concentrated range of equity and equity related securities of small-sized US companies. These are companies which, at the time of purchase, are considered to be in the bottom 30% by market capitalisation of the US equities market. The Fund typically holds 40 – 60 companies.</p> <p>The Fund may also invest up to one-third of its assets directly or indirectly in other securities (including other asset classes), countries, regions, industries or currencies, Investment Funds, warrants and Money Market Investments, and hold cash (subject to the restrictions provided in Appendix I).</p> <p>The Fund may use derivatives with the aim of achieving investment gains, reducing risk or managing the Fund more efficiently.</p>
<p><b>Sustainability Criteria</b></p> <p>The Investment Manager applies sustainability criteria when selecting investments for the Fund.</p> <p>Investments are composed of companies whose products and services solve one of the UN SDG gaps or that operate in a mainstream industry that indirectly solves one of the UN SDG gaps.</p> <p>In order to identify companies with a direct link to a UN SDG, the Investment Manager uses a proprietary screening tool to map company revenue to UN SDGs. The tool splits revenue into numerous different categories linked to UN SDGs. While the Investment Manager uses the tool to assess individual companies, it also enables it to measure the</p>	<p><b>Sustainability Criteria</b></p> <p>The Investment Manager applies sustainability criteria when selecting investments for the Fund.</p> <p><del>Investments are composed of companies whose products and services solve one of the UN SDG gaps or that operate in a mainstream industry that indirectly solves one of the UN SDG gaps.</del></p> <p><del>In order to identify companies with a direct link to a UN SDG, the Investment Manager uses a proprietary screening tool to map company revenue to UN SDGs. The tool splits revenue into numerous different categories linked to UN SDGs. While the Investment Manager uses the tool to assess individual companies, it also enables it to measure the</del></p>

<sup>5</sup> This website has not been reviewed by the SFC.

<p>overall revenue link to UN SDGs on a consolidated portfolio level. The Investment Manager has identified three types of companies that will make up the portfolio.</p> <p>The first type are highly innovative companies whose business model solves a direct need within the UN SDGs. These are growth companies whose solution to an UN SDG gap can be scaled.</p> <p>The second type are companies that are already generating revenues that have an impact, but do not articulate or highlight that impact. These are companies the Investment Manager can identify due to its deep understanding of the US Small Cap universe where it sees a re-rating opportunity. In so doing the companies can better articulate and become more transparent about their impact opportunity. This is expected to be the largest group in the Fund's portfolio.</p> <p>The third type will tend to have the lowest level of revenue link. These are companies who require a business model transition in order to survive. These are companies the Investment Manager believes have the ability and desire to transition and where it sees the ability to help guide such companies on that journey. Each investment must have some revenue linking to an UN SDG. Based on where the investment falls within the three types the level of linked revenue will vary.</p> <p>The Investment Manager ensures that at least 90% of the portion of the Fund's Net Asset Value composed of investments in companies is rated against the sustainability criteria. As a result of the application of sustainability criteria, at least 20% of the Fund's potential investment universe is excluded from the selection of investments.</p> <p>For the purposes of this test, the potential investment universe is the core universe of issuers that the Investment Manager may select for the Fund prior to the application of sustainability criteria, in accordance with the other limitations of the Investment Objective and Policy. This universe is comprised of</p>	<p><del>overall revenue link to UN SDGs on a consolidated portfolio level.</del></p> <p><u>Investments are composed of companies whose products and services contribute positively to at least one of the UN SDGs. In order to identify companies with a direct link to a UN SDG, the Investment Manager applies a two step approach:</u></p> <ul style="list-style-type: none"> <li>• <u>The first is a revenue based approach that considers whether a certain percentage of the relevant company's revenues, capital expenditure or operating expenditure contributes to an environmental or social objective (as applicable).</u></li> <li>• <u>The second is a detailed impact assessment of the company via the completion of a proprietary impact scorecard. The Investment Manager considers different aspects of impact such as: what outcome and UN SDGs the company is contributing to; who is served by the outcome (such as the relevant stakeholder or industry); an assessment of our expected contribution (including Schroders influence and engagement); and consideration of impact risks. The assessment typically includes Key Performance Indicators (KPIs) that are used to track the company's impact over time.</u></li> </ul> <p><u>The company and impact scorecard are then validated and approved by Schroders' Impact Assessment Group (IAG), in order for the company to be eligible for inclusion in the Fund's investible universe. The IAG consists of members from Schroders' impact and sustainable investment teams and members of the investment team. There may be some limited instances where step 2 and the IAG approval may follow subsequently (such as a particularly time sensitive investment).</u></p> <p>The Investment Manager has identified three types of companies that will <del>make up</del> <u>typically be considered for inclusion in the portfolio.</u></p> <p>The first type are highly innovative companies whose business model solves a direct need</p>
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equity and equity related securities of small-sized US companies or companies which derive a significant proportion of their revenues or profits from small-sized US companies.

within the UN SDGs. These are growth companies whose solution to an UN SDG gap can be scaled.

The second type are companies that are already generating revenues that have an impact, but do not articulate or highlight that impact. These are companies the Investment Manager can identify due to its deep understanding of the US Small Cap universe where it sees a re-rating opportunity. In so doing the companies can better articulate and become more transparent about their impact opportunity. This is expected to be the largest group in the Fund's portfolio.

The third type will tend to have the lowest level of revenue link. These are companies whose business models are transitioning towards higher impact activities and where the Investment Manager sees the ability to help guide such companies on that journey with active engagement. This is expected to be the smallest group in the Fund's portfolio. ~~who require a business model transition in order to survive. These are companies the Investment Manager believes have the ability and desire to transition and where it sees the ability to help guide such companies on that journey.~~ Each investment must have some revenue linking to an UN SDG. Based on where the investment falls within the three types the level of linked revenue will vary.

The Investment Manager ensures that at least 90% of the portion of the Fund's Net Asset Value composed of investments in companies is rated against the sustainability criteria. As a result of the application of sustainability criteria, at least 20% of the Fund's potential investment universe is excluded from the selection of investments.

For the purposes of this test, the potential investment universe is the core universe of issuers that the Investment Manager may select for the Fund prior to the application of sustainability criteria, in accordance with the other limitations of the Investment Objective and Policy. This universe is comprised of equity

	<p>and equity related securities of small-sized US companies or companies which derive a significant proportion of their revenues or profits from small-sized US companies.</p>
<p><b>Benchmark</b></p> <p>The Fund's performance should be assessed against its target benchmark being to exceed the Russell 2000 Lagged (Net TR) index and compared against the Morningstar US Small-Cap Equity Category and the S&amp;P Small Cap 600 Lagged (Net TR) index. The Fund's investment universe is expected to overlap materially with the components of the target benchmark and the S&amp;P Small Cap 600 (Net TR) Lagged index. The comparator benchmarks are only included for performance comparison purposes and do not determine how the Investment Manager invests the Fund's assets. The Investment Manager invests on a discretionary basis and there are no restrictions on the extent to which the Fund's portfolio and performance may deviate from the target benchmark or the S&amp;P Small Cap 600 Lagged (Net TR) index. The Investment Manager will invest in companies or sectors not included in the target benchmark or the S&amp;P Small Cap 600 Lagged (Net TR) index in order to take advantage of specific investment opportunities.</p> <p>The target benchmark has been selected because it is representative of the type of investments in which the Fund is likely to invest and it is, therefore, an appropriate target in relation to the return that the Fund aims to provide. The comparator benchmarks have been selected because the Investment Manager believes that each benchmark is a suitable comparison for performance purposes given the Fund's investment objective and policy.</p> <p>The benchmark(s) does/do not take into account the environmental and social characteristics or sustainable objective (as relevant) of the Fund.</p>	<p><b>Benchmark</b></p> <p>The Fund's performance should be assessed against its target benchmark being to exceed the Russell 2000 Lagged (Net TR) index and compared against the Morningstar US Small-Cap Equity Category <del>and the S&amp;P Small Cap 600 Lagged (Net TR) index</del>. The Fund's investment universe is expected to overlap materially with the components of the target benchmark <del>and the S&amp;P Small Cap 600 (Net TR) Lagged index</del>. The comparator benchmarks <del>are</del> <u>is</u> only included for performance comparison purposes and <del>do</del> <u>does</u> not determine how the Investment Manager invests the Fund's assets. The Investment Manager invests on a discretionary basis and there are no restrictions on the extent to which the Fund's portfolio and performance may deviate from the target benchmark <del>or the S&amp;P Small Cap 600 Lagged (Net TR) index</del>. The Investment Manager will invest in companies or sectors not included in the target benchmark <del>or the S&amp;P Small Cap 600 Lagged (Net TR) index</del> in order to take advantage of specific investment opportunities.</p> <p>The target benchmark has been selected because it is representative of the type of investments in which the Fund is likely to invest and it is, therefore, an appropriate target in relation to the return that the Fund aims to provide. The comparator benchmarks <del>have</del> <u>has</u> been selected because the Investment Manager believes that <del>each benchmark</del> <u>it</u> is a suitable comparison for performance purposes given the Fund's investment objective and policy.</p> <p>The benchmark(s) does/do not take into account the environmental and social characteristics or sustainable objective (as relevant) of the Fund.</p>