Schroders Wealth Management Sustainable Model Portfolio

Summary

The portfolio is actively managed and promotes environmental and social characteristics as defined by the Impact Management Project's ABC impact framework. The framework categorises investments into three main categories: (A) investments that avoid significant harm, (B) investments that benefit stakeholders, or (C) investments that contribute to solutions to environmental or social challenges. For direct investments, this analysis is done on the investment itself; for indirect investments, this analysis is done at the underlying asset level and then aggregated up to the level of the Investment Fund and/or Investments Trust (for example, a portfolio might have 10% in A, 20% in B and 70% in C). The output of this process is the production of a list of direct and investment investments, classified by their 'ABC' assessment.

We consider 'B' and 'C' investments which respectively focus on those 'benefitting stakeholders' and 'contributing to solutions' as those which promote environmental and social characteristics. 'B' investments typically promote operational environmental and social characteristics – examples include a company implementing an internal carbon price to reduce emissions or setting gender diversity targets amongst senior management. 'C' investments contribute towards the advancement of one or more of the UN Sustainable Developments Goals (SDGs) – examples include wind farm assets (SDG 7 – Affordable and Clean Energy), and care homes (SDG 3 – Good Health and Wellbeing).

Given we are primarily investing in indirect investments within this portfolio, our ability to directly control the exposure to 'B' and 'C' investments is limited. As a result, the portfolio measures alignment to environmental and social characteristics as per the below.

For direct investments, companies and sovereign bonds need to have been analysed through Schroders' proprietary tool SustainEx in order to be considered aligned to E & S characteristics. For indirect investments, each fund needs to be assessed at the strategy level using a proprietary ESG questionnaire the manager has developed in order to be defined as aligned to E & S characteristics.

The portfolio invests at least 50% of its assets (directly or indirectly) in investments which are aligned to environmental and social characteristics as defined by the above binding criteria.

Furthermore, at least 20% of the portfolio is then invested in sustainable investments.

For indirect investments such as third-party funds, we ascertain sustainable investments based on the fund's own definition (as disclosed in the prospectus). The objectives of a sustainable investment will therefore vary based on the underlying fund manager's frameworks, tools and interpretations. We will monitor the % in sustainable investments, based on the minimum threshold for sustainable investments disclosed under Article 8 or Article 9 of the SFDR by the respective underlying managers.

For direct investments, such as direct equities or sovereign bonds, we ascertain sustainable investments based on a net positive effect on one or more environmental or social objectives, as scored by Schroders' proprietary tool SustainEx. The environmental or social objectives of these sustainable investments include, but are not limited to, increasing greater water access or reducing food waste for direct equities, or international aid provision and biodiversity loss exposure for sovereign bonds.

The portfolio manager may also select sovereign green, social and sustainability (SGSS) bonds from sovereigns that do not meet the required score in the proprietary sustainability tool, provided that these exceptions are approved by Schroders Wealth' dedicated Sustainable Investment Committee.

The Portfolio invests directly and indirectly in companies that have good governance practices, as determined by the Portfolio Manager's rating criteria.

The Portfolio may also apply certain exclusions. The exclusion of certain activities will be measured by the Wealth Management Sustainable Investment Committee, which is a sub-committee of the Wealth Management Investment Committee.

The Portfolio includes investments that are treated as neutral for sustainability purposes, such as cash and Money Market Investments and derivatives used with the aim of reducing risk (hedging) or managing the portfolio more efficiently. This also includes other investments that are not aligned with the environmental or social characteristics of the portfolio. No reference target has been designated for the purpose of attaining the environmental or social characteristics promoted by the portfolio.

We consider active ownership to be the influence we can apply to management teams to ensure sustainable practices in the assets in which we invest. We aim to drive change that will protect and enhance the value of our investments and we are committed to leveraging the weight of our firm to change how an asset is operating for the better. We believe this is an important aspect of our role as stewards of our clients' capital and how we help clients meet their long-term financial goals in line with our fiduciary responsibilities.

Further details on our approach to active ownership policy is publicly available:
https://mybrand.schroders.com/m/3222ea4ed44a1f2c/original/schroders-engagement-blueprint.pdf

No sustainable investment objective

The portfolio manager's approach to not causing significant harm to any environmental or social sustainable investment objective includes the following:

- Firm-wide exclusions apply to directly invested portfolios. These relate to international conventions on cluster munitions, anti-personnel mines, and chemical and biological weapons. A detailed list of all companies that are excluded is available at https://www.schroders.com/en/sustainability/active-ownership/group-exclusions/

- The portfolio excludes investment managers for indirect investment funds and companies for direct investments in violation that are assessed by Schroders to have breached one or more 'global norms' thereby causing significant environmental or social harm. The portfolio manager's determination of whether a company or a fund has been involved in such a breach considers relevant principles such as those contained in the UN Global Compact (UNGC) principles, the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights. The 'global norms' breach list may be informed by assessments performed by third party providers and by proprietary research, where relevant to a particular situation. For indirect investments, where a fund is found to hold a company on the 'global norms' breach list, we will engage with the manager to divest the position – if it has not been sold within 6 months, we will exit the fund. For direct investments, an immediate sale will take place.

- The portfolio also excludes direct investments that derive revenues above certain thresholds from activities related to tobacco and thermal coal.

- The portfolio may also apply certain other exclusions.

Environmental or social characteristics of the financial product

The portfolio promotes environmental and social characteristics as defined by the Impact Management Project's ABC impact framework. The framework categorises investments into three main categories: (A) investments that avoid significant harm, (B) investments that benefit stakeholders, or (C) investments that contribute to solutions to environmental or social challenges. For direct investments, this analysis is done on the investment itself; for indirect investments, this analysis is done at the underlying asset level and then aggregated up to the level of the Investment Fund and/or Investments Trust (for example, a fund might have 10% in A, 20% in B and 70% in C). The output of this process is the production of a list of direct and investment investments, classified by their 'ABC' assessment.

We consider 'B' and 'C' investments which respectively focus on those 'benefitting stakeholders' and 'contributing to solutions to environmental or social challenges' as those which promote environmental and social characteristics. 'B' investments typically promote operational environmental and social characteristics –

Source: Schroders, as at July 2023. Screening data is provided by a third party unless otherwise specified.
Maximum percentage of revenue refers to highest acceptable revenue figure for that business activity.
Value chain refers to the related business activities that are considered these include suppliers, distributors, retailers and producers.
Any tie includes companies with an industry tie to the excluded activity.

examples include a company implementing an internal carbon price to reduce emissions or setting gender diversity targets amongst senior management. 'C' investments contribute towards the advancement of one or more of the UN Sustainable Developments Goals (SDGs) – examples include wind farm assets (SDG 7 – Affordable and Clean Energy), and care homes (SDG 3 – Good Health and Wellbeing).

Given we are primarily investing in indirect investments within this portfolio, our ability to directly control the exposure to 'B' and 'C' investments is limited, however we would typically aim to maintain an allocation within the below ranges:

- 0 – 20% in 'A' investments, those acting to Avoid Harm
- 40% - 90% in 'B' investments, those acting to Benefit Stakeholders
- 10 – 40% in 'C' investments, those Contributing to Solutions

No reference target has been designated for the purpose of attaining the environmental or social characteristics promoted by the portfolio.

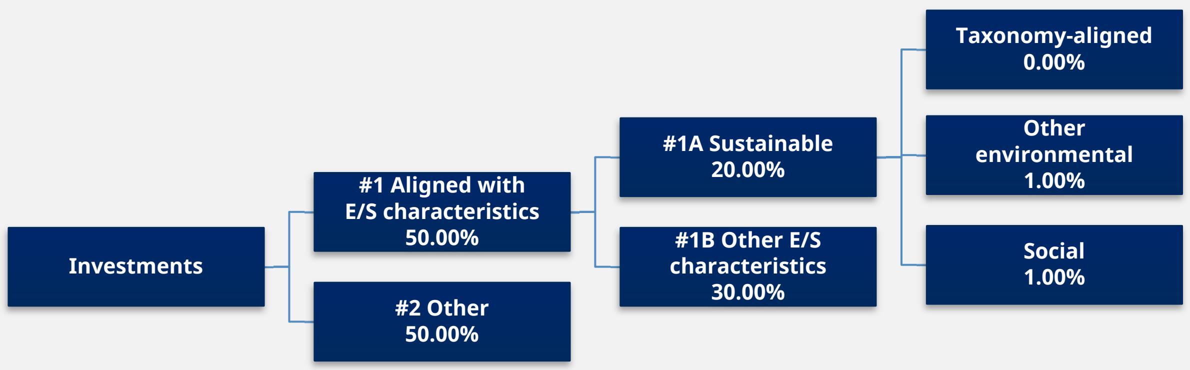
Investment strategy

The Portfolio is actively managed and invests at least 80% directly, or indirectly through collective investment schemes (including Schroder funds), exchange traded funds, real estate investment trusts or closed ended funds, in equity and equity related securities, fixed and floating rate securities and alternative assets worldwide which are aligned to environmental and social characteristics as defined by the portfolio manager (please see next section below for more details). Alternative assets may include funds that use absolute return strategies or funds that invest directly in real estate or indirectly in commodities.

The portfolio may also invest in warrants and money market instruments, and hold cash. The Portfolio may use derivatives with the aim of reducing risk or managing the portfolio more efficiently.

Proportion of investments

The planned composition of the Portfolio's investments that are used to meet its environmental or social characteristics are summarised below.



#1 Aligned with E/S characteristics includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.

#2 Other includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments.

The category **#1 Aligned with E/S characteristics** covers:
- The sub-category **#1A Sustainable** covers sustainable investments with environmental or social objectives.
- The sub-category **#1B Other E/S characteristics** covers investments aligned with the environmental or social characteristics that do not qualify as sustainable investments.

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#1 Aligned with E/S characteristics includes the minimum proportion of the portfolio's assets used to attain the environmental or social characteristics.

The portfolio invests at least 50% of its assets on a look-through basis in assets which promote E or S characteristics. Additionally, the portfolio will invest 20% of its assets on a look-through basis in #1A which are sustainable investments. There is a commitment to invest at least 1% of the portfolio's assets in sustainable investments with an environmental objective and at least 1% of the portfolio's assets in sustainable investments with a social objective. #1 The minimum proportion stated applies in normal market conditions.

#2 Other includes investments that are treated as neutral for sustainability purposes, such as cash and Money Market Investments and derivatives used with the aim of reducing risk (hedging) or managing the portfolio more efficiently. #2 also includes other investments that are not aligned with the environmental or social characteristics of the portfolio.

Minimum safeguards are applied where relevant to Money Market Investments and derivatives used with the aim of reducing risk (hedging) or other investments by restricting (as appropriate) investments in counterparties where there are ownership links or exposure to higher risk countries (for the purpose of money laundering, terrorist financing, bribery, corruption, tax evasion and sanctions risks). A firm-wide risk assessment considers the risk rating of each jurisdiction, which includes reference to a number of public statements, indices and world governance indicators issued by the UN, the European Union, the UK Government, the Financial Action Task Force and several Non-Government Organisations (NGOs), such as Transparency International and the Basel Committee.

Monitoring of environmental or social characteristics

The exclusion of certain activities, industries or groups of issuers will be measured by the Wealth Management Sustainable Investment Committee, which is a sub-committee of the Wealth Management Investment Committee. The data used is sourced from internal and external data providers. Given many of the underlying investments in the portfolio are indirect investments, timely access and ability to source the full data set of the underlying investments may be restricted.

The monitoring of these restrictions is undertaken by the Wealth Management Quarterly and Performance Risk Committee, whose members include representation from the independent Investment Risk Team.

Methodologies for environmental or social characteristics

For 'B' equity and credit investments, we use a proprietary Schroders' tool called SustainEx, to measure social and environmental characteristics. Additionally, we also measure the carbon footprint and the carbon value-at-risk (CVaR) of investments. For all other 'B' investments, a qualitative stakeholder analysis is undertaken.

'C' investments, must deliver a direct or indirect positive impact to society in order to advance one or more of the UN SDGs. We therefore assess alignment to a primary UN SDG and require quantifiable impact metrics (where the data is available) as to how it is targeting that UN SDG . For example, if an investment is helping advance SDG 7 Affordable and Clean Energy, then one metric to demonstrate this would be the number of megawatt hours of renewable energy generated.

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Data sources and processing

The Portfolio Manager is responsible for determining whether an investment meets the criteria of aligned to environmental and social characteristics, and the criteria of a sustainable investment. The data sources and processing for this determination differs between direct and indirect investments.

For indirect investments, alignment to E&S is done via the use of an internally developed ESG questionnaire. The questionnaire uses recommendations outlined by industry guidelines including the UNPRI and NZAM. For determination of a sustainable investment, we rely on the manager's own disclosure of a sustainable investment within the prospectuses.

For direct investments, both alignment to E&S and determination of a sustainable investment is done using proprietary tools which Schroders has developed. These tools rely on data from third-party sources – such as MSCI ESG research, Bloomberg, Refinitiv, Sustainalytics, and Morningstar – and the proprietary views of our internal analysts.

Limitations to methodologies and data

Limitations to the Portfolio Manager's methodology and data may arise from data availability constraints on a fund look-through basis.

The section "Data sources and processing" outlines the approach in ensuring the above mentioned limitations do not affect how the environmental or social characteristics promoted by the financial product are met.

The portfolio also commits to invest at least 20% of its assets in sustainable investments, based on the Portfolio Manager's rating system.

Due diligence

The Portfolio's investment and asset selection process has been reviewed and approved by the Wealth Management Quarterly Performance and Risk Committee that includes representatives from the Compliance, Risk, Product and Sustainable Investment functions. Ongoing compliance with the agreed sustainability characteristics is monitored by this committee. There are no external controls on that due diligence.

Engagement policies

We consider active ownership to be the influence we can apply to management teams to ensure sustainable practices within our investments. We aim to drive change that will protect and enhance the value of our investments and we are committed to leveraging the weight of our firm to change how an asset is operating for the better. We believe this is an important aspect of our role as stewards of our clients' capital and how we help clients meet their long-term financial goals in line with our fiduciary responsibilities.

Our active ownership priorities reflect the combined perspectives of our portfolio managers, investment analysts and sustainability specialists across the firm, supported centrally by the Sustainable Investment team.

We focus on sustainability issues which we determine to be material to the long-term value of our investee holdings. When material and relevant, we believe that assets that address these factors, where lacking, will drive improved financial performance for our clients. These issues reflect expectations and trends across a range of stakeholders including employees, customers, and communities, to the environment, suppliers and regulators. In addition, we seek to reflect the priorities of our clients. Based on this process, we identify six broad themes for our engagement: climate, natural capital & biodiversity, human rights, human capital management, diversity & inclusion and governance.

Our themes are underpinned by additional cross-cutting thematic priorities. We also increasingly recognise the interconnectedness of ESG themes, such as the "just transition", which recognises the social dimension of the transition to a resilient and low-carbon economy. We seek to reflect this interconnectedness in our engagements with assets.

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How we engage

We identify three key methods for practicing active ownership:

1. Dialogue: We speak with companies and managers to understand if and how they are preparing for the long-term sustainability challenges they face.

2. Engagement: We work with companies and managers to help them to recognise the potential impact of these challenges and to help them take action in the areas where change may be required.

3. Voting (where applicable): We use our voice and rights as shareholders to make sure these changes are affected.

Designated reference benchmark

No reference benchmark has been designated for the purpose of meeting the environmental or social characteristics promoted by the financial product.

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