Disclosure Statement

The Operating Principles for Impact Management

2023

Marketing material
for professional investors or advisors only.

Schroders

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Disclosure Statement

The Operating Principles for Impact Management

Schroders hereby affirms its status as Signatory of the Operating Principles for Impact Management (the 'Impact Principles').

Impact investing has a long history in private markets, and we believe there is much we can learn from the impact measurement and management frameworks that have been developed. Building on the experience and expertise of BlueOrchard, a leading impact investor with over 20 years of experience in impact across private and listed assets, we have developed a framework that aims to bring the rigour and robustness of a pure play impact manager into our group wide Schroders impact framework. This framework is applicable across asset classes.

Our framework is built on BlueOrchard's well-tested framework and tools, leverages existing best practice and is in line with various external initiatives, including the Operating Principles for Impact Management, Impact Frontiers, and IRIS+. Schroders plc became a signatory to the Operating Principles for Impact Management (Impact Principles) in September 2022. The Impact Principles are a best-in-class impact management framework and form a key part of our impact approach. Our 'Impact Driven' strategies across public and private assets follow the framework set out by the Impact Principles.

As part of our alignment with the Impact Principles, we have committed to an independent verification of our impact practices within the first year of being a signatory and we will publish disclosure statements describing our alignment with the Impact Principles on an annual basis. We welcome this independent verification and transparent disclosure, which brings much needed discipline, clarity, and accountability to the impact investing market. This statement is the first of many Disclosure Statements that details our alignment with the Impact Principles.

Schroders' assets under management covered by the Impact Principles (Covered Assets) totals $733m, as of August 2023 .

Andy Howard
Global Head of Sustainable Investment

Maria Teresa Zappia
Global Head of Impact

[1] The Covered Assets include our Impact Driven listed equity, listed debt, private equity and multi-private asset solutions as of August 2023.

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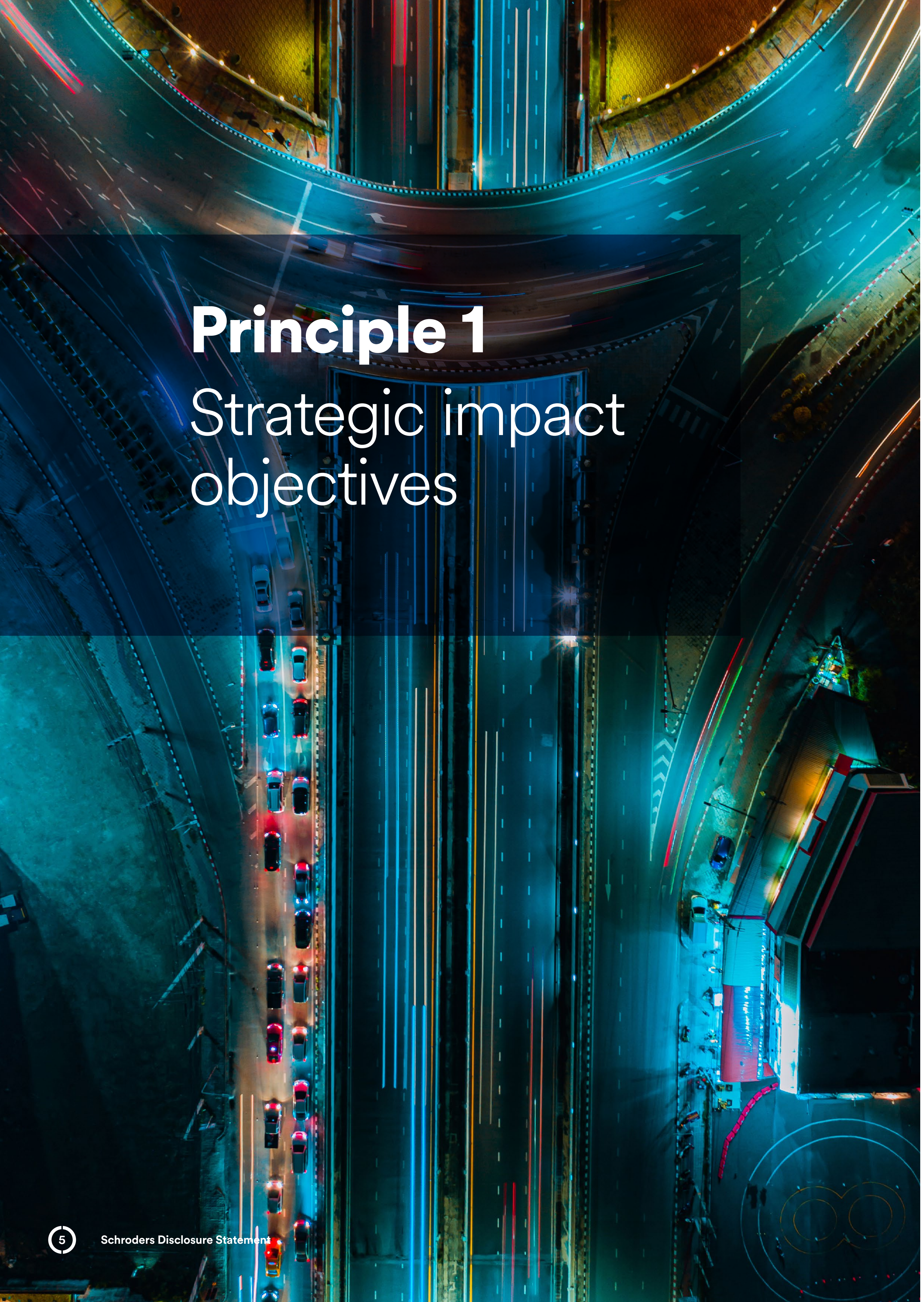


Principle 1

Strategic impact objectives

The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.

All of our Impact Driven strategies target explicit impact objectives that are set out in a fund-level Theory of Change. The Theory of Change sets out specific inputs and actions that the fund will take, and the outputs that will be measured to achieve the desired impact outcomes.

This starts with an exploration of the problem that each fund is aiming to solve and why the chosen investment strategy will be effective in tackling those challenges, including a detailed description and justification of the Key Performance Indicators or KPIs that will be tracked to measure progress towards the intended impact.

While each fund's Theory of Change will be specific to that particular fund, Schroders' Impact Driven range targets five broad impact themes with underlying subthemes and intents. Certain funds may place greater emphasis on a subset of these themes depending on the underlying impact objectives and asset class.

These impact themes, intents and KPIs are mapped to the Sustainable Development Goals and underlying SDG targets to ensure systematic and consistent assessment of SDG alignment.

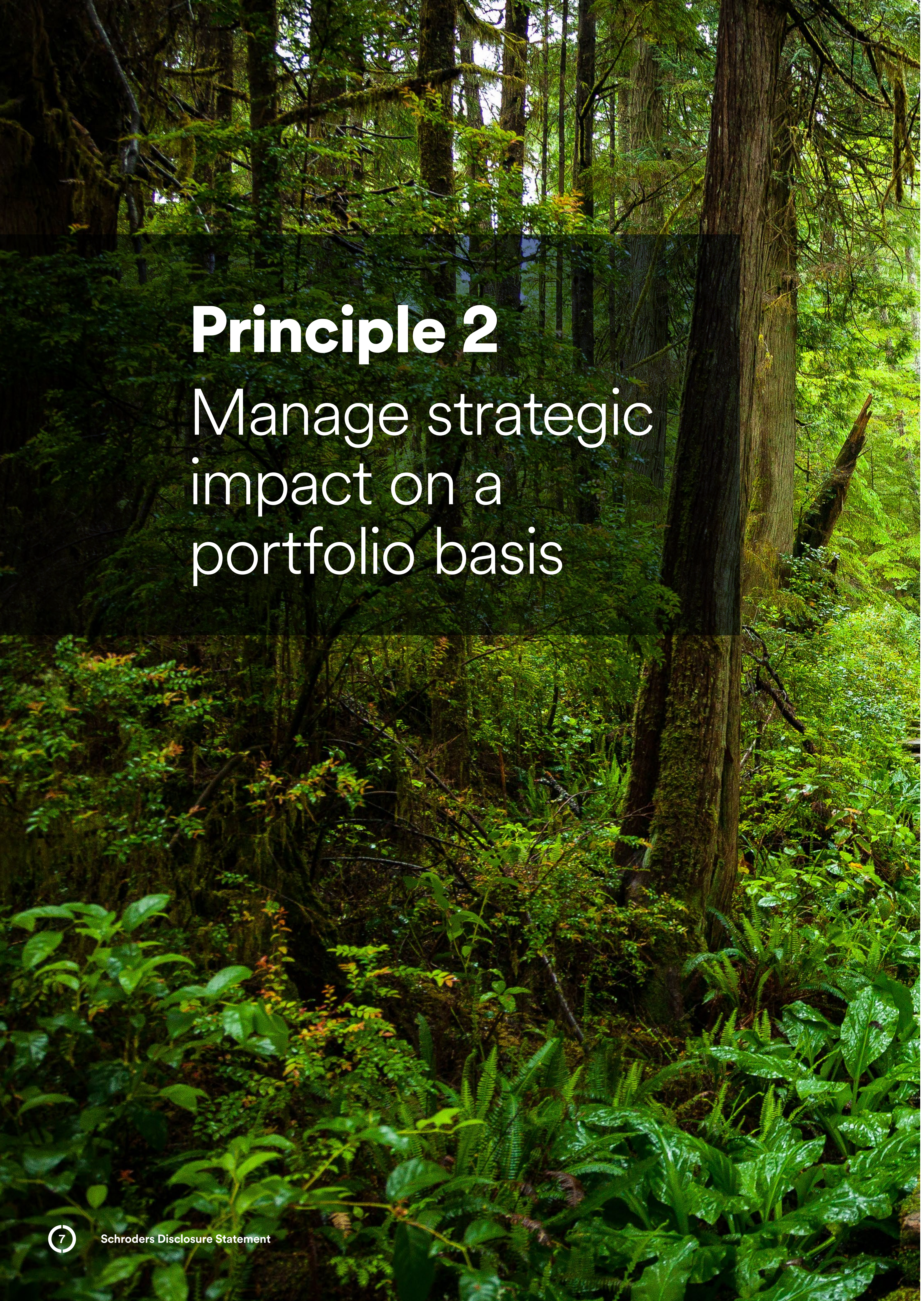
Theory of Change

Inputs	Activities	Outputs	Outcomes	Impact
Investment and resources required	Processes, events and action	Goods and services produced	Change that occurs because of an activity	Change in society or the environment
Planned work		Intended results		

Source: GIIN, Schroders.

Corporate impact intent

Environment	Contribute to innovation in the production and/ or use of energy	Improve access to clean energy	Improve energy efficiency	Enhance climate change mitigation	Strengthen climate change adaptation	Protect and restore marine and coastal ecosystems	Protect water resources and freshwater ecosystems
Health and wellbeing	Improve access to medicine & healthcare services	Improve access to water and sanitation services	Improve wellbeing	Increase productivity and innovation within healthcare			
Inclusion	Improve access to decent work	Improve access to financial services	Improve access to high quality education and training	Improve diversity and inclusion	Promote inclusive communities		
Responsible consumption and production	Avoid or reduce non-renewable resources	Enable the transition to a circular economy	Improve circularity across the value chain	Improve water use practices	Increase provision of nutritious and sustainable food	Increase recycling recovery, & reduce waste	Maximise products and or services usage
Sustainable infrastructure	Develop resilient and sustainable infrastructure	Improve the environmental performance of buildings	Increase access to affordable housing and basic services	Increase access to connectivity and digital infrastructure	Promote a safe and secure digital landscape	Provide access to clean transport	Support technological production development and innovation



Principle 2

Manage strategic impact on a portfolio basis

The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

Our framework is built on BlueOrchard's well-tested framework and tools. It also leverages existing best-practice, and is in line with various external initiatives including the Operating Principles for Impact Management, Impact Frontiers, and IRIS+.

Our best-in-class impact management and measurement framework, including a proprietary impact scorecard and independent impact governance ensures that we are able to identify investees that are contributing to material positive change, and that we are able to track this change over time through KPI monitoring and reporting. Our proprietary impact scorecard that includes an assessment of the five dimensions of impact:

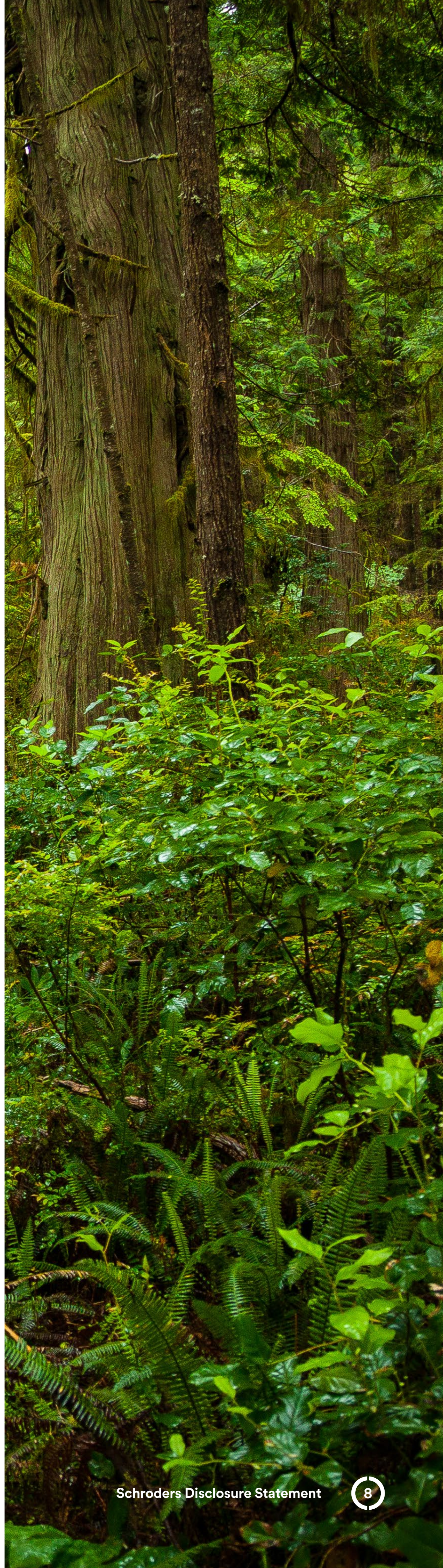
1. **What:** is the impact intent behind the investment – what do we hope to achieve?
2. **How much:** of a difference will this investment make – what are the core KPIs?
3. **Who:** is the end beneficiary and target group?
4. **Contribution:** what contribution does our investment make and what contribution do we have as an investor within this specific strategy/fund/mandate?
5. **Risk:** what are the impact risks associated with this investment? What is the probability/risk that the impact potential set as part of the steps 1 to 4 is not achieved?

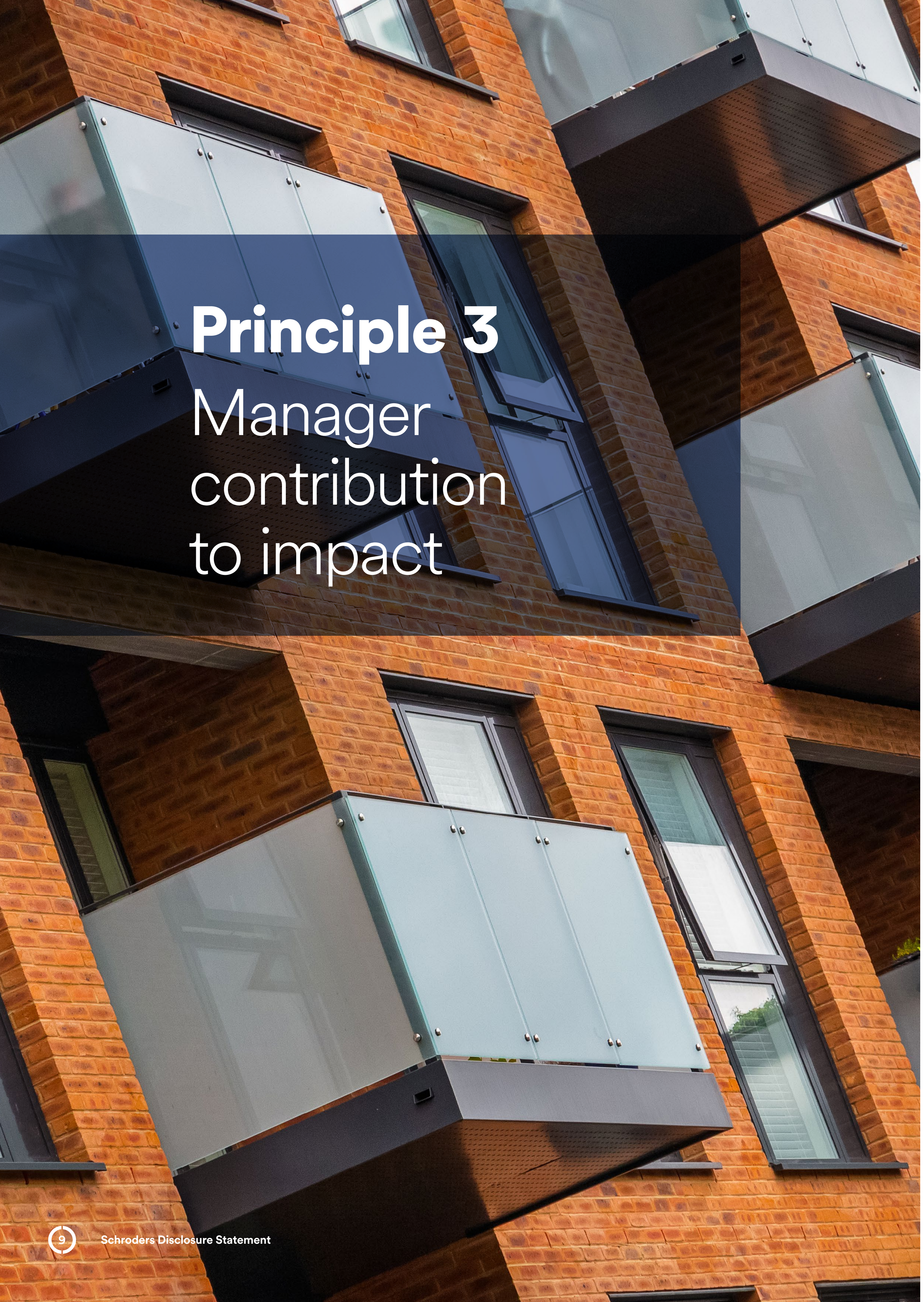
Every asset within our impact portfolios is assessed through our proprietary impact scorecard and put through our independent governance body, the Impact Assessment Group (IAG). This rigorous assessment of impact at the transaction level, and the independent oversight provided by the IAG, ensures that we are investing in companies that are contributing material positive change to the themes set out in our Theory of Change.

Our work doesn't stop once we have identified impactful companies. Working with those companies to deepen their impact through engagement is core to our impact proposition. We leverage strong relationships with company management teams and Schroders' sustainability and impact expertise to promote increased disclosure, improved business practices and make progress towards KPIs and impact that is targeted.

Carefully monitoring impact outputs over time is critical to ensuring that investments are directed to companies and activities that [are performing well] on an annual basis. Through transparent reporting, we can track and evidence progress towards our impact goals over time.

In addition, our Impact Fund Managers all have targets relating to impact measurement and management within their Performance Objectives to ensure that rigorous impact practices remain a key priority for all key persons involved in an impact fund.





Principle 3
Manager contribution to impact

The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels. The narrative should be stated in clear terms and supported, as much as possible, by evidence.

Investor contribution plays a critical role in impact investing. It is not enough to simply identify and invest in impactful companies in the same way that a non-impact investor would. Instead, impact investors must seek opportunities to provide financial and/or non-financial support to their investees.

Financial contributions may involve providing capital quicker than other investors, with greater flexibility, or taking on greater risk than other investors would be willing to tolerate. On the non-financial side, this might involve implementing impact targets into investment agreements, or engaging with investees to improve impact outcomes. Engagement is therefore a critical part of any impact investing strategy, and it is even more important in asset classes where the focus is on our non-financial contribution.

We believe that a differentiated approach to engagement is needed for impact strategies – one that touches on all three dimensions of impact. Engagement should be closely tied to the core **intent** and impact objectives of the strategy. It should seek to improve **measurement** of impact where relevant, and it should be focused on **contributing** to the core impact outcomes of portfolio companies and assets. While impact funds may also engage to improve sustainability practices, and thus reduce risk and protect value creation, we see this as secondary to the primary impact objective.

We assess investor contribution for every impact transaction through our proprietary impact scorecard, split across financial and non-financial contribution so we can isolate the nature of our contribution for every investee.

Schroders' Engagement Blueprint outlines our ambitions, priorities, approach and expectations for active ownership at Schroders. We continue to review our priorities and expectations as our understanding of the issues and market best practice evolve to ensure we are pushing for change in the most effective way.

Being able to track the progress and effectiveness of active ownership activities is key. In 2022, we launched ActiveIQ, our new proprietary tool for logging and tracking active ownership activity. Active IQ focuses on forward-looking engagement plans and tracking progress based on a milestone approach.

Financial contribution	Non-financial contribution
– Instrument	– Degree of influence
– Investors contribution: signal that impact matters, engage actively, grow new or undersupplied capital markets, provide flexible capital	– Type of engagement
– Direct investor contribution: Scale, Speed, Risk, Terms, Role, Reputation	– Depth of engagement
– Use of proceeds	– Engagement to improve disclosure
	– Engagement to improve outcomes
	– Support to improve third party/market perception
	– Introducing to new partners
	– Engagement with end stakeholders
	– Implementing ESG/impact criteria into investment or lease agreements

Principle 4
Assess expected impact of each investment

For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: 1. What is the intended impact? 2. Who experiences the intended impact? 3. How significant is the intended impact? The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations.

In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards and follow best practice.

We have developed an Impact Toolkit to enable us to assess the expected impact of each investee in a systematic way across all our Impact Driven strategies. The Impact Toolkit includes a proprietary Impact Scorecard that assesses every investee across the Impact Management Project's 5 dimensions of impact:

1 **What** is the impact intent behind the investment – what do we hope to achieve? The impact intents are formulated around 43 impact intentions that are categorised according to SDGs, with each intention also mapping two or five core impact areas. The impact intentions clarify the objective of the considered investment opportunity. Each investment opportunity can contribute to more than one impact intent. impact allocation column indicates the materiality of each impact intent and is also defining the weight of the scores achieved in the respective How Much section.

2 **How much** of a difference will this investment make – what are the core KPIs? Each impact intent is associated with a pre-defined number of KPIs that are mapped to SDG sub-targets and aligned with industry standards such as IRIS+. There is also scope to add a company specific indicator if it is not already captured. Each KPI score is weighted based on whether the metric refers to an input, activity, output and outcome, and whether it related to operations or products & services (with the focus on products & services). The HOW MUCH dimension is also where we evaluate actual vs. expected impact. For this purpose, each impact KPI is reported against a timeline where we collect information on:

   Baseline - current impact KPI

   History – past impact performance for the baseline metric, if available

   Target – expected impact performance for the baseline metric, usually and if available for 2030 timeline, otherwise adjusted following the reporting of the company considered.

3 **Who** is the end beneficiary and target group? The who dimension is split into two dimensions. The first is a data-driven needs assessment that assesses the degree of need for the SDGs and impact theme that the investee seeks to address in the regions in which it operates. The second is a stakeholder assessment that assesses core characteristics of direct and indirect stakeholders. Indirect stakeholders are not mandatory for reporting and should be included only if materially affected by the impact intent sought.

4 **Contribution:** what contribution does our investment make and what contribution do we have as an investor within this specific strategy/fund/mandate?

5 **Risk:** what are the impact risks associated with this investment? What is the probability/risk that the impact potential set as part of the steps 1 to 4 is not achieved?

An impact scorecard assessing all the dimensions of impact is completed for every investment in an Impact Driven fund by the investment desk. The scorecard is then review by the Impact Assessment Group (IAG) with members from the central impact, sustainability and BlueOrchard teams for an independent review. The IAG must then reach unanimous consensus that a company or asset meets the high bar on both impact and sustainability and delivers on the impact objectives set out by the fund.

Principle 5
Negative impacts

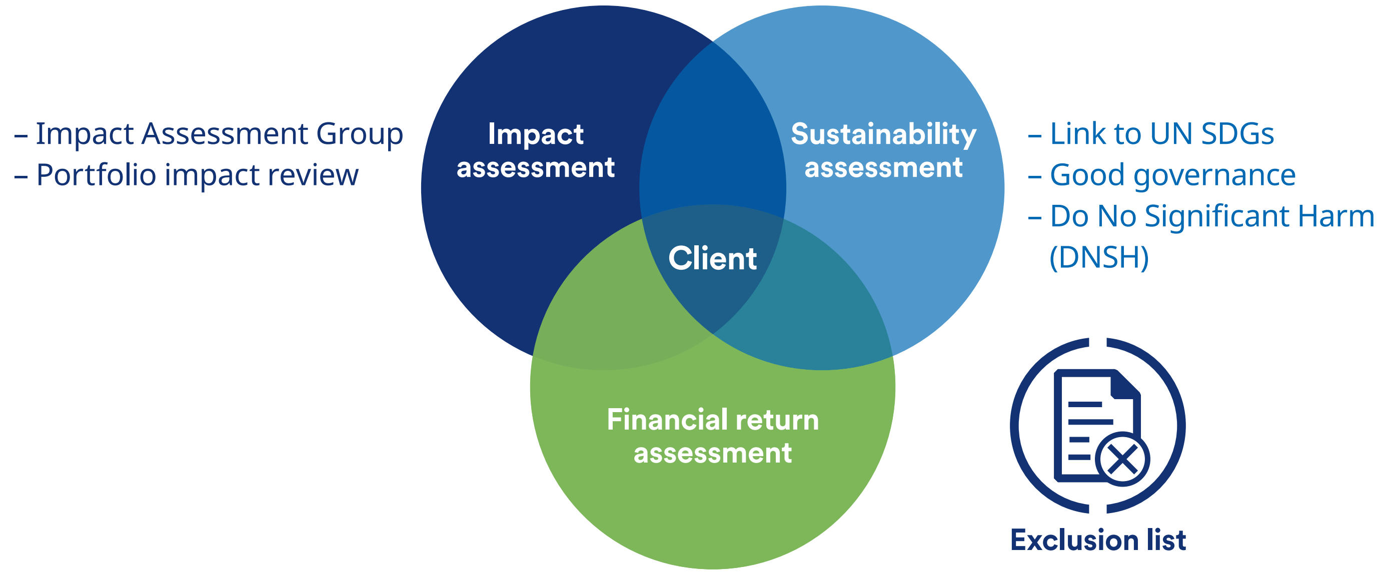
For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG) risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice. As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

Sustainable investment principles are central to our approach to investing across our business. We recognise the importance of appraising both financial and non-financial factors when analysing a company and its security. We firmly believe that integrating an analysis and evaluation of ESG factors in our security valuation and selection process is key to enhancing and protecting long-term value. The appraisal of non-financial factors, including ESG considerations, contributes to a better understanding of a company's risk characteristics and return potential. That is why we have been considering environmental, social and governance (ESG) factors for over 20 years and now fully integrate ESG across our managed assets – a goal we achieved at the end of 2020.

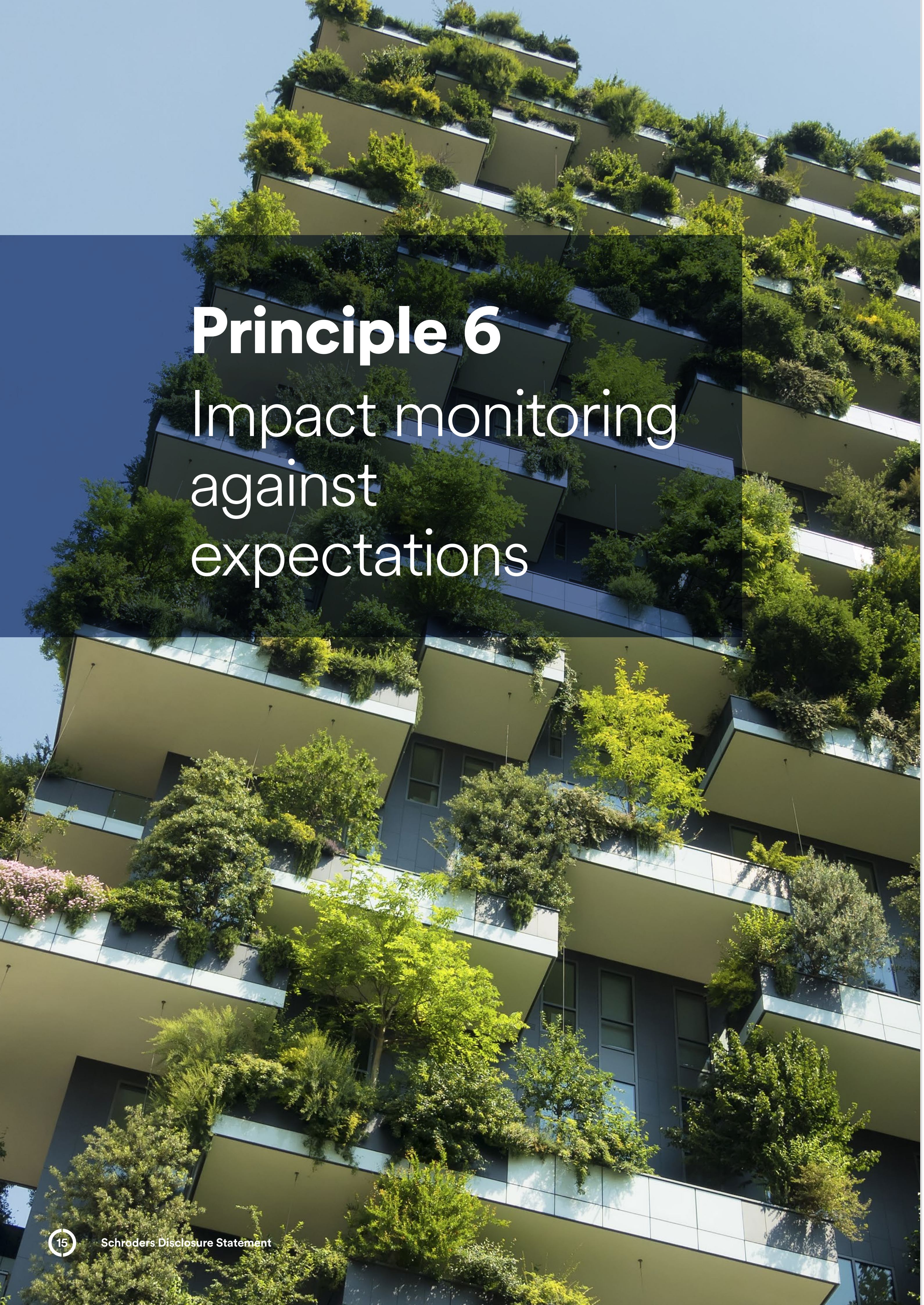
We have a team of over 50 dedicated sustainability professionals with over 400 years' combined investment experience. For us, Sustainability is part of our firm-wide mission. We were founding members of the Net Zero Asset Managers Initiative and were among the first financial institutions to have our Science Based Targets formally validated by the Science Based Targets Initiative (SBTi). The way we assess impact in our investments is through our suite of award-winning tools which help our investment teams to quantify the sustainability risks and impacts of assets we invest in and understand the 'impact-adjusted profits'. They enrich our research process and enable our analysts and fund managers to ask questions about how a company is managing its business, the impact it has on society and stakeholders and how it contributes to sustainability themes.

We believe that a triple lens assessment is needed to fully understand and assess an investment's potential. This involves an impact, sustainability and financial assessment, which we apply for every investee in our impact funds. Impact, sustainability and engagement progress are monitored at least annually for every investee, with an escalation framework in place where underperformance or negative impacts are identified.

A triple lens approach to impact



Source: Schroders, 2023.



Principle 6

Impact monitoring against expectations

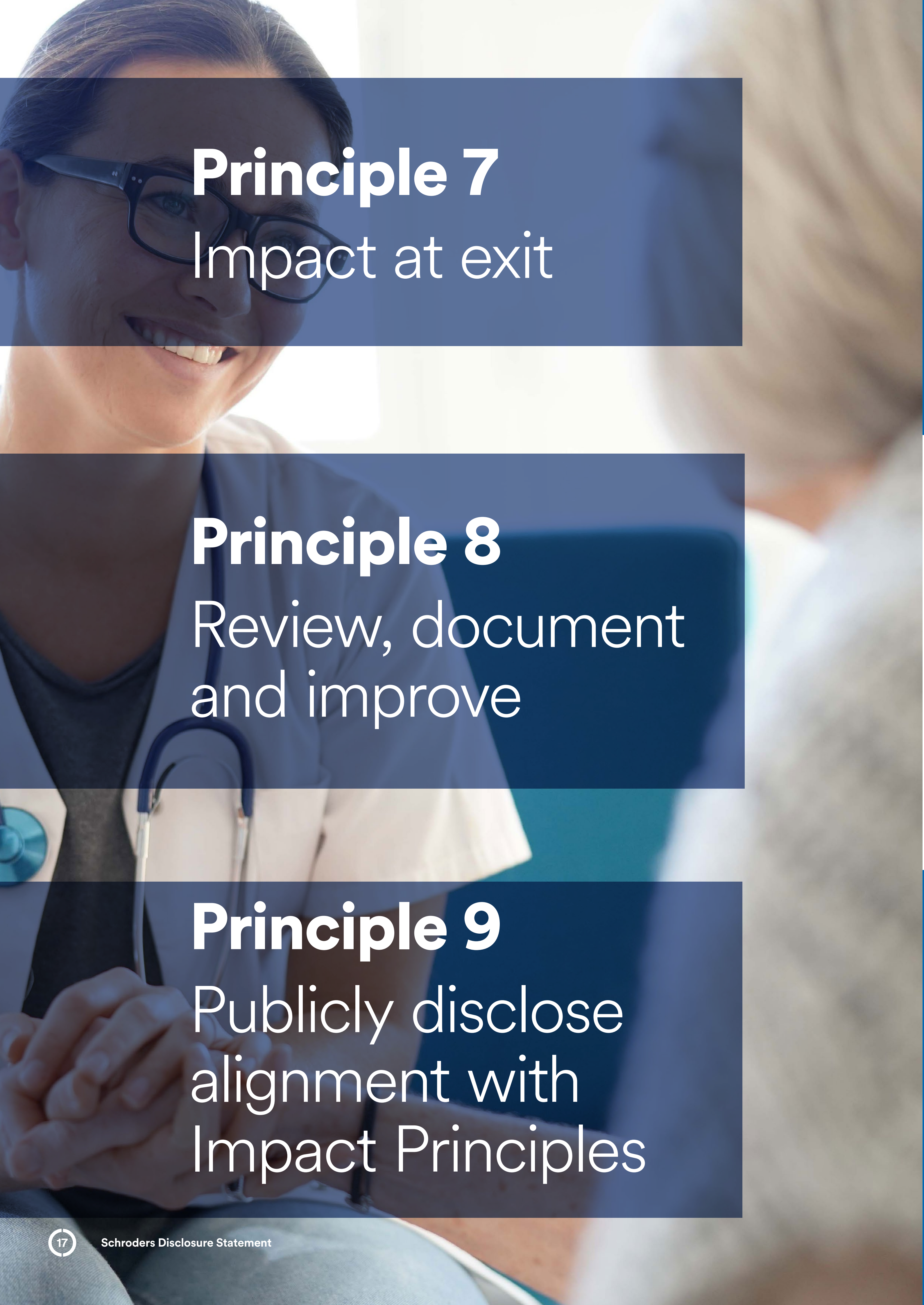
The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action. The Manager shall also seek to use the results framework to capture investment outcomes.

Monitoring impact over time at the transaction level is vital in understanding how impact is evolving relative to the expected impact to enable corrective or escalatory actions where there is a material divergence.

The completion of an impact scorecard and Impact Assessment Group approval sets the baseline date for impact monitoring and an impact target. We maintain an impact database of all discussions and conclusions of the Impact Assessment Group (IAG), including a log of the date that a company or asset was approved by the IAG. This triggers a countdown in our log which tracks the days since the last assessment. We conduct impact monitoring on an annual basis for all impact investees, including progress towards impact targets or expected impact.

The annual review results in a decision on an appropriate response based on progress. This may include ongoing monitoring (i.e. repeat process in 1 years time), a reassessment (i.e. re-do the Impact Scorecard), engagement, escalation such as voting against Directors, or divestment where other escalation options are deemed inadequate.

In addition to monitoring impact on an annual basis at the transaction level, it is also important to review impact at the portfolio level to track progress towards the Theory of Change.



Principle 7
Impact at exit

When conducting an exit, the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.

Schroders has developed asset-class specific Responsible Exit Guidelines to support deal teams and portfolio managers and provide guidance on how to assess and potentially enhance impact at exit, where this is not in conflict with our fiduciary duties. Different exit pathways are identified, depending on the reason for exit.

The key assessment tool utilized by all teams is Schroders proprietary exit questionnaire and it serves to assess: i) our contribution to impact over the lifetime of the investment; and ii) the likelihood that impact will continue beyond our investment. The process consists of three main steps:

1. We assess our reason for exit
2. We assess whether the impact goals intended for the company or asset have been achieved and assess our contribution to that investment
3. We consider the likelihood that the impact targeted will continue after exit. This may be an assessment of how closely linked the company's financial performance is to its impact performance, or it may be a reaffirmation of the company's impact aims in its recent strategy updates. We also consider whether the timing of exit will impact the longevity of impact. This section may include an overview of any exit discussions held with the company or asset owner.

For relevant private market investments, we consider the alignment of the buyer with our impact philosophy, including an overview of buyer impact ambitions, practices and expertise.

Principle 8
Review, document and improve

The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

Schroders Impact Tracker is used to monitor impact, sustainability and engagement progress of every investee on an annual basis. This offers the opportunity to assess impact performance for every investee, and reflect on lessons learned at the transaction level.

In addition to this transaction level review and reflection, we conduct Portfolio Review meetings to assess fund progress towards its Theory of Change. Within these meetings we reserve space for review and reflection on our IMM practices and processes to identify opportunities for innovation and improvement. Our strategic governance body, the Impact Executive Committee with senior representatives across the business, offers an additional governance layer to ensure constant iteration and improvement.

Principle 9
Publicly disclose alignment with Impact Principles

The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Principles and, at regular intervals, arrange for an independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.

As a signatory of the Principles, Schroders is committed to disclosing the degree of alignment of its impact management system with the Principles. This Disclosure Statement affirms the alignment of Schroders' policies, tools and procedures with the Impact Principles for all Impact Driven strategies and is updated on an annual basis and published on Schroders' website.

In accordance with Impact Principles' requirements, Schroders has engaged BlueMark as its external and independent verifier. The Bluemark Verifier Statement for Schroders' Impact Driven strategies, dated September 2023, can be found here. The independent verification will be updated on a regular basis.