

Schroder International Selection Fund
Société d'Investissement à Capital Variable
5, rue Höhenhof, L-1736 Senningerberg
Grand Duchy of Luxembourg

Tel: +352 341 342 202
Fax: +352 341 342 342

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.

24 February 2022

Dear Shareholder,

Schroder International Selection Fund (the "Company") - Global Cities (the "Fund") (formerly known as Global Cities Real Estate)

We are writing to advise you of certain updates to the Fund.

Please note that the disclosures of the investment objective and policy of the Fund in the Hong Kong offering documents of the Company and the Fund ("**Hong Kong Offering Documents**") will be revised to include additional disclosures to comply with the binding commitment to sustainability in light of the requirements of EU's Sustainable Finance Disclosure Regulation as set out below.

Update to the disclosures of the Investment Objective

The disclosures of the investment objective of the Fund in the Hong Kong Offering Documents will be revised to provide that the Fund invests in equity and equity related securities of real estate companies worldwide and which the investment manager deems to be sustainable investments.

As a result, the revised disclosures of the investment objective of the Fund will be as follows:

"Investment Objective

The Fund aims to provide capital growth and income in excess of the FTSE EPRA NAREIT Developed index (NET TR, USD) after fees have been deducted over a three to five year period ^{Note} by investing in equity and equity related securities of real estate companies worldwide and which the Investment Manager deems to be sustainable investments."

^{Note} 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.

Updates to the disclosures of the Investment Policy

The disclosures of the investment policy of the Fund in the Hong Kong Offering Documents will be revised to include the following additional disclosures:

- (i) the Fund invests at least 75% of its assets in sustainable investments, which are investments that contribute towards more environmentally resilient and innovative cities and infrastructure;
- (ii) the Fund does not directly invest in certain activities, industries or groups of issuers which generate revenue above the respective limits as prescribed by the investment manager from time to time, including from alcohol, tobacco, gambling, fossil fuels extraction and production, coal, coal and oil, oil and gas, nuclear, nuclear weapons, civilian firearms and controversial weapons. The respective limits and exclusion list may be updated from time to time. For further information, please refer to the fund's webpage¹;
- (iii) 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 sustainability rating criteria;
- (iv) the Fund may invest in companies that the investment manager believes will improve their sustainability practices in accordance with the investment manager's sustainability criteria within a reasonable timeframe, typically up to two years;
- (v) the investment manager may also engage with companies held by the Fund to challenge identified areas of weakness on sustainability issues; and
- (vi) the investment manager ensures that at least 90% of companies in the Fund's portfolio are 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.

The investment policy of the Fund will also be enhanced to clarify that the Fund's investment in "equity and equity related securities of real estate companies" may include investment in real estate investment trusts (REITs).

Please refer to the Appendix for further details on the revisions to the investment policy (including the additional disclosures on sustainable investments) and the sustainability criteria which the investment manager will apply when selecting investments for the Fund.

In addition, the Fund is subject to additional risks relating to sustainable investment approach. Please see the Appendix for further details on the risk disclosure.

As a result of the updates to the disclosures in the Hong Kong Offering Documents, the Fund will be an environmental, social and governance ("**ESG**") fund in Hong Kong.

¹ Accessed via <https://www.schroders.com/en/hk/retail-investors/funds/fund-centre/> (this website has not been reviewed by the SFC).

Implication of the updates

Save as disclosed above:

- (i) all other key features of the Fund, including the fees chargeable in respect of the Fund, and risks applicable to the Fund remain the same, except that the Hong Kong Offering Documents will be enhanced to include the risks relating to sustainable investment approach; and
- (ii) there is no change in the operation and/or manner in which the Fund is being managed following the revision to the disclosures of the investment objective and policy of the Fund, as described above ("**Updates**").

The Updates are not expected to materially prejudice the rights or interests of existing Shareholders.

The Hong Kong Offering Documents will be revised in due course to reflect the Updates and other miscellaneous updates to the Fund and will be available free of charge at www.schroders.com.hk² or upon request from the Hong Kong Representative of the Company, Schroder Investment Management (Hong Kong) Limited.

Costs and expenses in respect of the Updates

Any costs and expenses of making these Updates including regulatory and shareholder communication costs will be borne by Schroder Investment Management (Europe) S.A., i.e. the Management Company of the Fund.

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

The Board of Directors

²This website has not been reviewed by the SFC.

Appendix

Revisions to investment policy of the Fund to include additional disclosures on sustainable investments

The Fund is actively managed and invests at least 75% of its assets in sustainable investments, which are investments that contribute towards more environmentally resilient and innovative cities and infrastructure (please see the “Sustainability Criteria” section below for more details). Real assets have a large impact on the environment and create over 40% of the world’s CO2 emissions. By the end of the century as much as 90% of the global population could be living in urban areas – in order to meet targets set by the Paris Agreement, cities will be a crucial tool in order to achieve climate targets. By investing in companies that will make a positive impact on the built environment (i.e. any type of real asset that provides a service to the inhabitants within a city/region), the Fund has an overarching aim of achieving Goal 11 of the United Nations Sustainable Development Goals (i.e. Sustainable Cities and Communities). To ensure this, ESG is integrated into stage 1 and 2 of the Fund’s investment process and is a key factor in determining portfolio inclusion and position sizing.

The Fund does not directly invest in certain activities, industries or groups of issuers which generate revenue above the respective limits as prescribed by the investment manager from time to time, including from alcohol, tobacco, gambling, fossil fuels extraction and production, coal, coal and oil, oil and gas, nuclear, nuclear weapons, civilian firearms and controversial weapons. The respective limits and exclusion list may be updated from time to time. For further information, please refer to the Fund’s webpage³.

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 sustainability rating criteria (please see the “Sustainability Criteria” section below for more details).

The Fund may invest in companies that the investment manager believes will improve their sustainability practices in accordance with the investment manager’s sustainability criteria within a reasonable timeframe, typically up to two years. Improvement of a company’s sustainability practices is assessed through continuous engagements with the companies on material ESG issues. In the event where a company does not respond constructively, the investment manager’s concerns have not been sufficiently addressed or the investment manager does not feel confident that the company intends to address these concerns, the investment manager will increase its level of monitoring of these companies and either decide to extend its engagement activity, escalate specific areas of concern in order to effect the change that the investment manager is seeking or ultimately divest the Fund’s investment in such company.

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 website⁴.

³ Accessed via <https://www.schroders.com/en/hk/retail-investors/funds/fund-centre/> (this website has not been reviewed by the SFC).

⁴ Accessed via <https://www.schroders.com/en/hk/retail-investors/sustainability/making-an-impact-through-sustainability> (this website has not been reviewed by the SFC).

Sustainability Criteria

The investment manager applies the sustainability criteria when selecting investments for the Fund. The investment universe is analysed in two distinct phases. Each phase leads to companies being excluded based on weak sustainability metrics. Stage 1 takes the location of a company's assets and applies a rank based on four bespoke 'Impact Scores'. This creates a list of companies eligible for stage 2. This list is called the Long Term Index (LTI). From the LTI, ESG analysis using the bespoke 'CONTEXT' system and valuation establishes maximum capital allocation and position sizing. ESG is integrated, applies exclusions and incorporates third-party data.

- **Stage 1** analyses the location (i.e. cities) of a company's assets. A proprietary asset database maps every asset of a company anywhere in the world. This provides the latitude and longitude of each asset. The investment manager has visibility of all the assets owned by listed real asset companies. There are over 180,000 assets in the database. The asset database allows the investment manager to identify which company owns assets in the strongest global cities. Cities and assets are scored using four bespoke 'Impact Scores' encompassing a range of environmental and social metrics including environmental impact and transport impact.
 - **Environmental Impact database** analyses the location in terms of environmental factors (this includes physical risk, policy risk and wellbeing risk) by measuring how sustainable a location is using sources including the National Aeronautics and Space Administration (NASA), European Space Agency (ESA), Brookings and other research institutes. Physical risk assesses the ability to mitigate impact of geophysical risks such as earthquakes and landslides, policy risk assesses a city's policy towards ESG issues, and wellbeing risk assesses factors such as air quality and heat and water stress.
 - **Transport Impact database** analyses the location in terms of social factors by looking at the availability of mass transit. The database is able to see the average walk times to all modes of mass transit in any city, as well as the freight and passenger throughput of Airports and Ports. A strong transport system in a city enables a larger workforce to reach a wider range of employers. This is integral to the economic and social viability of a city.
 - **Innovation Impact database** - universities are a crucial element in any global city. World class universities provide the talented graduates that companies want to recruit. In addition, they provide the innovative ideas which launch new businesses and create employment. Innovation is what drives the knowledge economy. The innovation score functions by geocoding circa 3,000 universities worldwide. The city catchment plus a 25km radius is used as the region where a city benefits from the presence of a university.
 - **Economic Impact database** - this ranks each asset based on its proximity to the most productive locations. These locations with the strongest economic characteristics will be the most sustainable cities into the future.

Companies are then scored based on their exposure to the superior/ inferior locations with reference to the relevant metrics set out above. Companies in the bottom quartile (based on their sustainability score) are removed from the Fund's investment universe. The result is the LTI of which more than half the companies under coverage are therefore excluded in Stage 1 because they operate in cities whose environmental and social characteristics are not sufficiently sustainable. The companies which are included are then analysed according to Stage 2 which incorporates further sustainability analysis to establish a maximum investment for each company.

Companies which are located in good cities thus have to go through Stage 2 before they can be included in the portfolio.

- **Stage 2** focusses on determining the quantum to be invested in each company using both internal, i.e. Schrodgers' proprietary tool CONTEXT and external sustainability measurement tools. The following third party data is used to provide inputs to CONTEXT: MSCI pillar scores, company policies, Institutional Shareholder Services (ISS) reports and Global Real Estate Sustainability Benchmark (GRESB) reports). The analysis awards a sustainability score to each company based on the analysis of a company's relationship with its stakeholders (customers, communities, employees, environment, regulators and governments, and suppliers), overall governance and the sustainability of its business model. While this sustainability score is separate from the score given in Stage 1, companies' contributions to the environmental and social wellbeing of cities are key within CONTEXT. The process excludes the bottom quartile of companies (based on their sustainability score) from investment by the Fund and in so doing this ensures that only those companies making the strongest environmental and social contribution to cities are included in the portfolio.

The investment manager may also engage with companies in the portfolio, which are expected to demonstrate a clear commitment to sustainability both in their relationships with stakeholders and in their efforts to mitigate their impact on the natural environment.

The investment manager performs its analysis using its own research and Schrodgers' sustainable proprietary tools such as CONTEXT. Third party research (examples detailed under stage 2 above) is used as a secondary consideration and generally provides a source of challenge or endorsement for the investment manager's assessment based on its proprietary tools.

The investment manager ensures that at least 90% of companies in the Fund's portfolio are 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 (i.e. determination of the percentage of the Fund's potential investment universe that has been excluded from the selection of investments), 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 and equity related securities of real estate companies worldwide.

Risks relating to sustainable investment approach

- **Concentration risk:** The Fund follows a sustainable investment approach, which may cause it to be overweight and/or underweight in certain sectors and thus perform differently than funds that have a similar objective but which do not incorporate sustainability investment criteria when selecting securities. The value of the Fund will be more volatile than that of a fund having a more diverse portfolio of investments.
- **Subjective judgment in investment selection:** In pursuing the sustainable investment approach, the investment manager integrates certain environmental and social sustainability themes into the investment selection process, which involves analysis of potential investment based on certain "sustainability factors". Such assessment by the investment manager is subjective in nature and therefore it is possible that the investment manager may have a different interpretation of what is sustainable compared to another manager which may lead to the Fund investing in certain opportunities or foregoing investment opportunities when it might otherwise be advantageous to do so and/or selling securities due to their sustainable

characteristics when it might be disadvantaged to do so.

- **Exclusion risk:** Environmental and social exclusion criteria used in the Fund's investment strategy may result in the Fund foregoing opportunities to buy certain securities when it might otherwise be advantageous to do so, and/or selling securities due to their environmental and social characteristics when it might be disadvantageous to do so. As such, the application of exclusion criteria may restrict the ability of the Fund to acquire or dispose of its investments at a price and time that it wishes to do so, and may therefore result in a loss to the Fund.
- **Reliance on corporate data or third-party information:** When assessing a potential investment based on the Fund's sustainability criteria, the investment manager is dependent upon information and data from the security issuer and/or third-parties. Such information or data may be incomplete, inaccurate or inconsistent. The lack of a standardized taxonomy may also affect the investment manager's ability to measure and assess the environment and social impact of a potential investment.
- **Change in nature of investments:** The securities held by the Fund may be subject to style drift which no longer meet the Fund's sustainability criteria after its investments. The investment manager may have to sell such security held by the Fund at a disadvantageous price. This may lead to a fall in the value of the Fund.