

Schroders Capital UK Real Estate Fund

Summary

For the purposes of Article 8 SFDR, the ACD considers that the Company is a financial product which promotes, among other characteristics, environmental and social characteristics while it does not have a sustainable investment objective.

The Company will invest in UK properties. The Company may also invest in transferable securities (including REITs, government bonds and unquoted companies), units in collective investment schemes, units in unregulated collective investment schemes (which may include unauthorised property unit trusts and limited partnerships), money market instruments, deposits, cash and near cash.

The Company seeks to reduce the energy consumption, carbon footprint and climate impact of its portfolio. In managing the portfolio, the Manager considers environmental and social responsibility towards key stakeholders including investors, employees, tenants, suppliers, communities and the environment.

In order to deliver the Company's sustainability commitments, the Investment Manager is committed to:

- Improving the proportion of the Company's assets rated under sustainability-related building certification standards, when measured over any three year period
- Improving the energy performance rating profile of the Company's assets (both in terms of coverage and of rating of energy performance certificates (EPCs)), when measured over any three year period
- Pursuing a decarbonisation strategy with the aim to reduce greenhouse gas emissions of the Company to net zero by 2050

This financial product does not consider principal adverse impacts on sustainability factors.

The Investment Manager will seek to manage all UK properties to deliver the binding sustainability commitments and as such considers 100% of real estate assets to align to the E/S characteristics, however the fund may invest in cash management investment and derivatives on a temporary basis. As a result the investment aligned with E/S characteristics shall be equal to or exceed 80% of the Fund NAV. Cash management investments and derivatives will not contribute or count towards the sustainability commitments and shall not exceed at any point in time 20% of the Fund NAV.

Every transaction must go to the IC which has a two-stage process for acquisition or investment approvals:

- **Initial due diligence:** focus on investment rationale and underwriting, sensitivity analysis, initial Impact and Sustainability Review and due diligence budget requests.
- **In-depth due diligence:** focus on due diligence findings and risk mitigants, underwriting variances from Stage 1, portfolio impact analysis and pricing confirmation. It will cover legal, tax, structure, technical, sustainability, financing (if applicable), commercial and valuation and outcomes will determine continued involvement in the transaction, revised asset business plan, underwriting and risk management.

Final transaction approval requires sign-off from Head of Real Estate Risk ensuring that all IC conditions have been met and the relevant country head (providing no material deviations from the final approval). Risk management controls are embedded in each step of the process from origination to closing.

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The Investment Manager operates an environmental management system (“EMS”) certified to ISO14001 for the asset management of direct real estate in the UK and Europe.

The EMS provides the framework for how sustainability principles (environmental and social) are managed throughout all stages of its investment process including acquisition due diligence, operational asset management, property management provided by third parties, developments and refurbishments.

As part of the Investment Manager’s ‘Schroders Investment Risk Framework’ (‘SIRF’) key environmental and social characteristics relating to the assets held by the Company are reported and reviewed on a quarterly basis. This process specifically includes ongoing performance with the Company’s sustainability commitments.

The Investment Manager will continue to monitor and measure the performance (including environmental and social characteristics) of all assets over time ensuring the successful delivery of the real estate investment strategy and compliance with the Fund’s binding sustainability commitments.

The primary sources of information used by the Investment Manager to attain each of the promoted environmental or social characteristics include a combination of materials throughout the investments lifecycle including due diligence material, such as publicly available information, third-party research and commissioned third-party due diligence reports as well as information accumulated during on-site due diligence.

It is not anticipated that there will be limitations with attaining data related to the sustainability-related building certificates and energy performance certificates to support the Company’s first two commitments. However, a number of certification schemes are only valid for a defined period of time and so require recertification on or prior to expiry so that they remain valid. Regular monitoring of the Company’s profile with respect to such certifications forms an important and necessary part of the applied sustainability programme.

Pursuing a decarbonisation strategy with the aim to reduce greenhouse gas emissions of the Company to net zero by 2050 requires understanding of the Company’s energy and carbon profiles and decarbonisation trajectory, for assets and the portfolio, through application of the Carbon Risk Real Estate (CRREM) tool. This requires the use of whole building energy and carbon performance data which is made available by third-party Property Managers where energy supplies are procured and carbon emissions are generated as part of the landlord’s responsibility. In some cases a portion or all of an asset’s energy use and carbon emissions may be under the occupier’s responsibility and so, although best efforts are made to collect this data, this may not always be possible. Where such data is missing estimation methodologies (e.g. data extrapolation, use of benchmarks etc.) may need to be used to enable the analysis of decarbonisation pathways.

SCREF invests in direct real estate, engagement is integral and continuous with a range of stakeholders including occupiers, communities, service providers, environment and investors. We seek regular and ongoing engagement to ensure a good occupational experience to help and retain tenants. Our Sustainability Requirement for Property Managers includes key performance indicators on tenant engagement for Property Managers responsible for day-to-day tenant relationship. Alternatively, engagement could be through SREIM’s membership to industry groups i.e. Better Buildings Partnership (BBP) and its members commitment to achieve Net Zero Carbon by 2050 for which SREIM became a signatory in 2019.

There is no designated reference benchmark.

No sustainable investment objective

This financial product promotes environmental or social characteristics, but does not have as its objective sustainable investment.

This financial product does not commit to make one or more sustainable investments .

Environmental or social characteristics of the financial product

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For the purposes of Article 8 SFDR, the ACD considers that the Company is a financial product which promotes, among other characteristics, environmental and social characteristics while it does not have a sustainable investment objective.

The Company seeks to reduce the energy consumption, carbon footprint and climate impact of its portfolio. In managing the portfolio, the Manager considers environmental and social responsibility towards key stakeholders including investors, employees, tenants, suppliers, communities and the environment.

In order to deliver the Company's sustainability commitments, the Investment Manager is committed to:

- Improving the proportion of the Company's assets rated under sustainability-related building certification standards, when measured over any three year period
- Improving the energy performance rating profile of the Company's assets (both in terms of coverage and of rating of energy performance certificates (EPCs)), when measured over any three year period
- Pursuing a decarbonisation strategy with the aim to reduce greenhouse gas emissions of the Company to net zero by 2050

The Investment Manager has a sustainable investing policy which reflects its prevailing approach to improving sustainability in the portfolios it manages. This is available on the Investment Manager's website at <https://www.schroders.com/en/uk/realestate/products--services/sustainability/>.

This financial product does not consider principal adverse impacts on sustainability factors.

While the Company does not invest in investee companies, it does still assess the governance practises of the special purpose vehicles (SPV) and real estate assets that it acquires.

Each SPV shall be assessed to ensure that they have sound management structures, appropriate employee relations and remuneration of staff and tax compliance.

The underlying physical assets will be assessed to the extent possible against certain good governance criteria such as compliance with tenant screening criteria and appropriate procurement, valuation and asset management policies.

Investment strategy

The investment strategy used by the Investment Manager is as follows:

The Company will invest in UK properties. The Company may also invest in transferable securities (including REITs, government bonds and unquoted companies), units in collective investment schemes, units in unregulated collective investment schemes (which may include unauthorised property unit trusts and limited partnerships), money market instruments, deposits, cash and near cash.

Derivatives may be used for the purposes of Efficient Portfolio Management (including to hedge the risk of interest rate movements in relation to any borrowing of the Company). The aim of reducing risks or costs will allow the Investment Manager to enter into exposures on permissible assets using derivatives or forwards as an alternative to selling or purchasing underlying assets. These exposures may continue for as long as the Investment Manager considers that the use of derivatives continues to meet the original aim. The aim of generating additional capital allows the Investment Manager to take advantage of any pricing imperfections in relation to the acquisition and disposal (or disposal and acquisition) of rights relating to assets the same as, or equivalent to which, the Company holds or may hold.

The investment of the assets of the Company must comply with the section of the Sourcebook applicable to Qualified Investor Schemes.

The Company has the ability to use moderate levels of gearing from time to time.

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Proportion of investments

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

#1 Aligned with E/S characteristics includes **[equal to or exceed 80% of the Fund NAV]**.

The Investment Manager will seek to manage all UK properties to deliver the binding sustainability commitments and as such considers 100% of real estate assets to align to the E/S characteristics, however the fund may invest in Other investments (as defined below) on a temporary basis. As a result the investment aligned with E/S characteristics shall be equal to or exceed 80% of the Fund NAV.

#2 Other includes **[equal to or less than 20% of the Fund NAV]**.

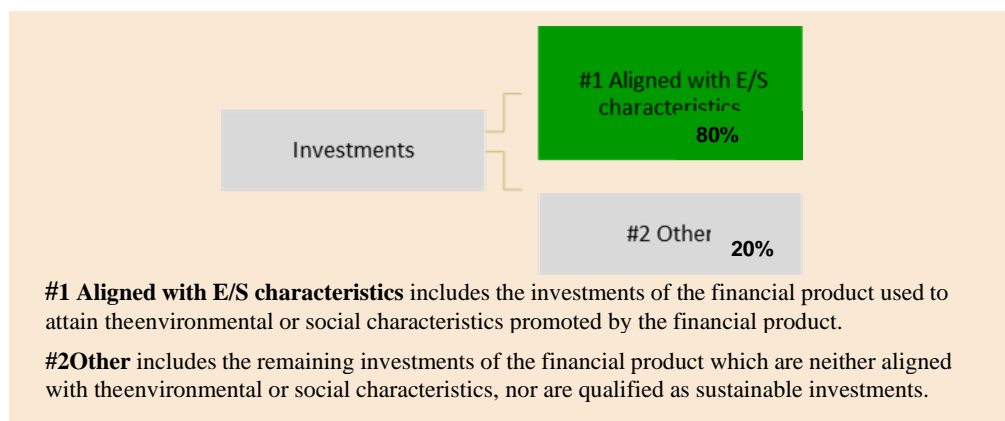
In addition to UK properties, the Fund is also permitted to hold, as needed, cash management investments (such as money market instruments, deposits, cash and near cash) held for cash management purposes or as an intermediary investment prior to investment in accordance with the investment strategy.

Derivatives may be used for the purposes of Efficient Portfolio Management (including to hedge the risk of interest rate movements in relation to any borrowing of the Company). The aim of reducing risks or costs will allow the Investment Manager to enter into exposures on permissible assets using derivatives or forwards as an alternative to selling or purchasing underlying assets. These exposures may continue for as long as the Investment Manager considers that the use of derivatives continues to meet the original aim. The aim of generating additional capital allows the Investment Manager to take advantage of any pricing imperfections in relation to the acquisition and disposal (or disposal and acquisition) of rights relating to assets the same as, or equivalent to which, the Company holds or may hold.

Cash management investments and derivatives will not contribute or count towards the sustainability commitments and shall not exceed at any point in time 20% of the Fund NAV.

Derivatives are not used to attain an environmental or social characteristic.

No minimum environmental or social safeguards are applied to cash management investments of derivatives.



Monitoring of environmental or social characteristics

The Investment Manager will continue to monitor and measure the performance (including environmental and social characteristics) of all assets over time ensuring the successful delivery of the real estate investment

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strategy and compliance with the Fund's binding sustainability commitments. Coverage and performance of assets against sustainability-related building certification standards and EPCs will be monitored and managed using a suite of tools including but not limited to the Investment Manager's Impact and Sustainability Action Plans (ISAPs) and the use of third-party sustainability software. Net Zero Carbon (NZC) analysis using the Carbon Risk Real Estate Monitor (CRREM) tool will support pursuance of the Fund's decarbonisation strategy.

The ESG themes and factors that are considered and/or prioritised by the Investment Manager may also vary from time to time, in particular as sustainability practices evolve over time.

There is a process of regular review including formal portfolio reviews twice a year with the Investment Manager's sustainability team and annually by the Investment Committee. Sustainability is incorporated into Schroders Group Investment Risk Framework which provides quarterly review of sustainability related risks.

Methodologies

The Investment Manager operates an environmental management system ("EMS") certified to ISO14001 for the asset management of direct real estate in the UK and Europe.

The EMS provides the framework for how sustainability principles (environmental and social) are managed throughout all stages of its investment process including acquisition due diligence, operational asset management, property management provided by third parties, developments and refurbishments.

As part of the Investment Manager's 'Schroders Investment Risk Framework' ('SIRF') key environmental and social characteristics relating to the assets held by the Company are reported and reviewed on a quarterly basis. This process specifically includes ongoing performance with the Company's sustainability commitments.

Acquisition due-diligence

All potential acquisitions require Investment Committee approval, each proposal report must include an Impact and Sustainability Review, developed into an Action Plan for acquired assets. The review includes (but is not limited to)

- Minimum requirements for sustainability-related building certifications
- Minimum requirements for Energy Performance Certificates (EPCs)
- Collection and assessment of asset energy and carbon performance data and modelling of decarbonisation trajectory using the Carbon Risk Real Estate (CRREM) tool

Where data is unavailable or does not meet minimum requirements the responsible Investment Manager is required to detail plans for improving the position of those characteristics over an appropriate timeframe.

Operational asset management

Impact and Sustainability Action Plans (ISAPs) are developed for all Managed Assets with clear targets for improving environmental and social characteristics including sustainability-related building certifications and EPC profiles, where required. The ISAP is a live document owned by the Asset Manager supported by the appointed third-party Property Manager which supports the delivery of identified asset-level initiatives.

In line with the Company's commitment to pursue a decarbonisation strategy with the aim to reduce greenhouse gas emissions of the Company to net zero by 2050, the Company's real estate assets are assessed against both current and future carbon targets derived using the Carbon Risk Real Estate Monitor (CRREM) tool. CRREM, an EU funded open access project, has been selected as the appropriate benchmark to assess performance of assets against, because it is a recognised set of targets that provides the real estate industry with transparent, science-based decarbonisation pathways aligned with the ambition of the Paris Climate Goals to pursue efforts for limiting global temperature rise to 1.5°C compared to pre-industrial levels.

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CRREM uses GHG emissions (and energy consumption) divided by floor area coverage to determine each individual asset's intensity-based transition pathway targets up to 2050, based on the asset type and region it is situated within. Understanding how assets are currently performing compared to their CRREM-derived sector and geographical benchmarks allows targets and strategies to be developed which seek to improve alignment over time.

Assessing an asset's current energy and carbon position, as well as its decarbonisation pathway, requires the availability of a full 12 months of energy and carbon data for 100% of the buildings usage. Where a complete dataset is unavailable for a particular asset estimations are applied to uplift data or, where data quality is still deemed insufficient, benchmark values are used.

Appointed third-party sustainability consultants and/or procured sustainability software directed and overseen by the Investment Manager's sustainability team supports the development of decarbonisation trajectories as outlined above.

Property Management provided by third parties

Although the performance of an asset remains the responsibility of the Asset Manager, to aid delivery, the Investment Manager has developed the 'Property Manager Sustainability Requirements' which are adopted by the Company's appointed third-party Property Managers as a requirement of the Property Management Agreement. The Property Manager supports the Asset Manager with the monitoring and management of the promoted environmental and social characteristics such as (but not limited to):

- In support of the Asset Manager, Property Managers are expected to recommend buildings for technical building assessments/energy audits/certification (e.g. BREEAM). Property Managers shall seek to progress any improvement actions arising from such third-party assessments, with Schroders approval as required.
- Property Managers shall support the Asset Manager in efficient management of energy performance certificate (EPC) procurement, renewal, improvement and any energy efficiency performance standards
- Property Managers shall support achievement of all asset energy and carbon targets established for each asset and portfolio.

Developments and Refurbishments

The Investment Manager has developed 'Sustainability Requirements for Developments and Refurbishment' which is used to promote the consideration of environmental and social characteristics as part of all development and refurbishment activities. Intended for use by asset managers, design teams and advisers, this document prescribes requirements that support the monitoring and management of the promoted environmental and social characteristics such as (but not limited to):

- Project specific minimum green building certification requirements
- Project specific minimum Energy Performance Certificate (EPC) requirements
- Energy and carbon requirements consistent with the Company's commitment to pursue a decarbonisation strategy with the aim to reduce greenhouse gas emissions of the Company to net zero by 2050
 - o Paris Aligned operational energy and carbon performance targets;
 - o On-site renewables feasibility assessment;
 - o Whole life carbon assessment; and
 - o Replacement of fossil fuel based heating and hot water with energy efficient electric systems, where appropriate

Data sources and processing

The primary sources of information used by the Investment Manager to attain each of the promoted environmental or social characteristics include a combination of materials throughout the investments lifecycle

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including due diligence material, such as publicly available information, third-party research and commissioned third-party due diligence reports as well as information accumulated during on-site due diligence.

The process for sourcing relevant data is largely an ongoing one through the year with data and information at the asset level collated and managed as part of the Investment Manager's sustainability programme.

Ongoing data collation includes:

- Provision of property consumption data for energy, water and waste by the property managers to the Investment Manager on a quarterly basis.
- Information on asset assessments, certificates and initiatives which are captured in Impact and Sustainability Action Plans shared between the Investment Manager, appointed third-party Property Managers and sustainability consultants.

Further information on the data collection and validation process is outlined below.

Quarterly data collection and validation

For landlord-controlled assets, key building-level quantitative environmental performance data, such as energy (kWh) and water (m³) consumption, and waste generation (tonnes/% diverted from landfill) are collected and validated quarterly from appointed third-party property managers and sustainability consultants.

Data Verification / Submission

Property Managers are requested to provide utility data to the Investment Manager's appointed third-party sustainability consultants at least quarterly. It is a requirement that data provision will be overseen by the Property Manager's sustainability lead. Prior to submission of data, Property Managers are expected to undertake verification exercises to ensure completeness and accuracy of reporting.

Data should be accompanied by commentary on influencing factors that may have positively or negatively affected consumption where required. Commentary should originate from the individual property's building/facilities manager. Influencing factors could include occupancy changes, refurbishments, improvement initiatives or otherwise and should confirm timing of when any changes were affected.

Validation / Verification

The Investment Manager's appointed third-party sustainability consultants will review data to identify:

- Data gaps i.e. periods of missing utility supply
- Duplicated data
- Data variances i.e. consumption and cost comparisons to the same quarter in the previous year

The Investment Manager's appointed third-party sustainability consultants, using selected third-party sustainability software, shall undertake additional verification to understand anomalies and potential errors in data submitted by Property Managers.

Data Review and Variance Commentary

The Investment Manager's appointed third-party sustainability consultants will discuss the results of the validation process with Property Managers and adjust data where necessary, with oversight of the Investment Manager's sustainability team.

Annual data collection and validation

For landlord and tenant-controlled assets, key building-level characteristics and qualitative information relevant to the promoted environmental or social characteristics, such as sustainability-related building certification standards and energy performance certificates, are collected annually by investment managers and appointed

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third-party property managers and validated by appointed third-party sustainability consultants, with oversight by the Investment Manager's sustainability team.

Where data is made available which supports the monitoring of the commitments to improve the proportion of the Company's assets rated under sustainability-related building certification standards and the energy performance rating profile of the Company 0% shall be estimated.

With respect to the commitment to pursue a decarbonisation strategy, in some cases a portion or all of an asset's energy use and carbon emissions may be under the occupier's responsibility and so, although best efforts are made to collect this data, this may not always be possible. Where such data is missing estimation methodologies (e.g. data extrapolation, use of benchmarks etc.) may need to be used.

In addition to the above validation / verification protocol, on an annual basis, the Investment Manager's appoints third-party consultants to conduct a Type 2 Moderate Assurance over the energy, greenhouse gas ("GHG") emissions, water, waste management data, and sustainability-related building certification standards and energy performance certificate profiles for the underlying assets.

The assurance process can be summarised at a high level as follows.

- **Materiality assessment** – Review of confirmed portfolio and associated energy, water and waste data for the reporting period. Identification of material assets, utilities and consumption periods for which supporting evidence will be requested from data provider (third party property managers).
- **Evidence sampling and information request** – Request for sample supporting evidence (to support material consumption data points which is principally made to the third party property managers).
- **Review and validation** – Review of supplied evidence and confirmation of reported data. Identified errors in data will be investigated for cause of error and may trigger additional rounds of materiality assessment and evidence sampling. This may include third party property managers and Schroders.
- **Assurance closure** – Internal technical review and sign-off, followed by issue of Assurance Statement.

Each fund receives an individual statement of Assurance which is provided for the Company's annual sustainability reports with the assurance statement made available to investors.

Annual Decarbonisation Pathway Performance Review

On an annual basis with the support of appointed third-party sustainability consultants and/or procured sustainability software the Investment Manager undertakes a performance review of the Company's decarbonisation progress. This review again makes use of the Carbon Risk Real Estate ('CRREM') tool as detailed in the 'Methodologies' section above to determine the energy and carbon performance of an asset (and the portfolio as a whole) based on the latest available full year's data. The results of this analysis are used to a) identify the current position relative to the applicable benchmark and progress against the previous year, and b) revise decarbonisation trajectories out to the year 2050, where appropriate.

Limitations to methodologies and data

It is not anticipated that there will be limitations with attaining data related to the sustainability-related building certificates and energy performance certificates to support the Company's first two commitments. However, a number of certification schemes are only valid for a defined period of time and so require recertification on or prior to expiry so that they remain valid. Regular monitoring of the Company's profile with respect to such certifications forms an important and necessary part of the applied sustainability programme.

Pursuing a decarbonisation strategy with the aim to reduce greenhouse gas emissions of the Company to net zero by 2050 requires understanding of the Company's energy and carbon profiles and decarbonisation trajectory, for assets and the portfolio, through application of the Carbon Risk Real Estate (CRREM) tool. This requires the use of whole building energy and carbon performance data which is made available by third-party

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Property Managers where energy supplies are procured and carbon emissions are generated as part of the landlord's responsibility. In some cases a portion or all of an asset's energy use and carbon emissions may be under the occupier's responsibility and so, although best efforts are made to collect this data, this may not always be possible. Where such data is missing estimation methodologies (e.g. data extrapolation, use of benchmarks etc.) may need to be used to enable the analysis of decarbonisation pathways.

Due diligence

Every transaction must go to the IC which has a two-stage process for acquisition or investment approvals:

- **Initial due diligence:** focus on investment rationale and underwriting, sensitivity analysis, initial Impact and Sustainability Review and due diligence budget requests.
- **In-depth due diligence:** focus on due diligence findings and risk mitigants, underwriting variances from Stage 1, portfolio impact analysis and pricing confirmation. It will cover legal, tax, structure, technical, sustainability, financing (if applicable), commercial and valuation and outcomes will determine continued involvement in the transaction, revised asset business plan, underwriting and risk management.

The aforementioned Impact and Sustainability Review, which is subsequently developed into an action plan, includes (but is not limited to)

- Minimum requirements for sustainability-related building certifications
- Minimum requirements for Energy Performance Certificates (EPCs)
- Collection and assessment of asset energy and carbon performance data and modelling of decarbonisation trajectory using the Carbon Risk Real Estate (CRREM) tool

Final transaction approval requires sign-off from Head of Real Estate Risk ensuring that all IC conditions have been met and the relevant country head (providing no material deviations from the final approval). Risk management controls are embedded in each step of the process from origination to closing.

Engagement policies

SCREF invests in direct real estate, engagement is integral and continuous with a range of stakeholders including occupiers, communities, service providers, environment and investors. We seek regular and ongoing engagement to ensure a good occupational experience to help and retain tenants. Our Sustainability Requirement for Property Managers includes key performance indicators on tenant engagement for Property Managers responsible for day-to-day tenant relationship. Alternatively, engagement could be through SREIM's membership to industry groups i.e. Better Buildings Partnership (BBP) and its members commitment to achieve Net Zero Carbon by 2050 for which SREIM became a signatory in 2019.

Designated reference benchmark

Not applicable.