

## SCHRODER INTERNATIONAL SELECTION FUND

*Société d'Investissement à Capital Variable*

5, rue Höhenhof, L-1736 Senningerberg

Grand Duchy of Luxembourg

R.C.S. Luxembourg No B.8202

(the **Company**)

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### COMMON MERGER PROPOSAL

The board of directors of the Company (the **Board**) approves the terms of the proposed merger of the sub-fund Schroder International Selection Fund — European Equity (Ex UK) into the sub-fund Schroder International Selection Fund — European Alpha Focus:

#### WHEREAS

1. The Company was incorporated in the Grand Duchy of Luxembourg as a *société anonyme*, having its registered office at 5, Rue Höhenhof, L-1736 Senningerberg, Grand Duchy of Luxembourg registered with the Luxembourg *Registre de Commerce et des Sociétés* under number B.8202 and qualifies as *société d'investissement à capital variable* organised as an umbrella fund pursuant to Part I of the law of 17 December 2010 on undertakings for collective investment, as amended (the **Law**).
2. The sub-fund Schroder International Selection Fund — European Equity (Ex UK) (the **Merging Fund**) shall be merged into the sub-fund Schroder International Selection Fund — European Alpha Focus (the **Receiving Fund**).
3. Schroder International Selection Fund is managed by Schroder Investment Management (Luxembourg) S.A. (the **Management Company**), a Luxembourg management company subject to chapter 15 of the Law.
4. The Management Company has delegated the investment management functions of both the Merging Fund and the Receiving Fund to Schroder Investment Management Limited. Their objectives both include the provision of capital growth through investment in equity and equity-related securities of European companies, but the Receiving Fund allows exposure to UK Companies, whilst the Merging Fund does not. In addition, the Receiving Fund has a more concentrated portfolio than the Merging Fund and may use derivatives for investment purposes.

The Receiving Fund is also subject to a performance fee<sup>1</sup> of 10% of the outperformance over MSCI Europe Net TR<sup>2</sup>, subject to a High Water Mark as per the methodology stated in section 3.1 of the prospectus of the Company (the **Prospectus**).

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<sup>1</sup> Performance fee is applied to all Share Classes except the I Shares

<sup>2</sup> For the avoidance of doubt, the above mentioned benchmarks are solely used for performance fee calculation purposes, and they should therefore under no circumstances be considered as indicative of a specific investment style. In relation to currency hedged Share Classes, currency hedged versions of the above mentioned benchmarks (including currency equivalent cash benchmarks) are used for performance fee calculation purposes.

The synthetic risk and return indicator (the SRRI) of the Receiving Fund and the Merging Fund is the same. A key features comparison table about the Merging Fund and the Receiving Fund is found in the appendix of this common merger proposal.

## I. Type of merger

The Merging Fund will be merged into the Receiving Fund in accordance with the terms of Article 1 (20) c) of the Law (the **Merger**).

## II. Background and Rationale

Upon review, the Board has concluded that, given the declining size of the Merging Fund, the better performance of the Receiving Fund and the similarity in strategy between the Merging Fund and the Receiving Fund, shareholders in the Merging Fund will benefit from a merger with the Receiving Fund. Shareholders in the Merging Fund will be merged into a sub-fund which, the Board believes, will give shareholders access to greater capital growth potential with the same risk profile. The Merging Fund has approximately EUR 61 million under management as of 8 May 2018 while the Receiving Fund has approximately EUR 113 million under management as of the same date. The ongoing charges may be slightly higher in the Receiving Fund.

The Merging Fund has a more diversified portfolio compared to the Receiving Fund which is managed in a more concentrated manner. As a result of the Merger, there will be no change of legal entities acting as investment managers.

The Board has therefore decided, in accordance with Article 5 of the articles of incorporation of the Company (the **Articles**) and the provisions of the Prospectus and in the interest of the Merging Fund's shareholders, to merge the Merging Fund into the Receiving Fund.

## III. Expected Impact of the Merger

A key features comparison table about the Merging Fund and Receiving Fund is found in the appendix of this common merger proposal.

### Impact on the Shareholders of the Merging Fund

The investment objectives of both the Merging Fund and the Receiving Fund both include the provision of capital growth by investing in equity and equity related securities of European companies, though the Receiving Fund does not exclude UK Companies from its investable universe. In addition, the Receiving Fund has a more concentrated portfolio and may use derivatives for investment purposes.

The table below summarises the annual investment management fees (the **AMC**) and on-going charges (the **OGC**) for the share classes of the Merging Fund and the Receiving Fund. The Receiving Fund is also subject to a performance fee as detailed above. The base currency of both the Merging Fund and the Receiving Fund is EUR. A full summary of which Merging Fund share classes will be merged into which Receiving Fund share classes can be found in the appendix.

Share class	Merging Fund		Receiving Fund	
	AMC	OGC	AMC	OGC <sup>1</sup>
<b>A</b>	1.50%	1.88%	1.50%	1.94%
<b>C</b>	0.75%	1.08%	0.75%	1.14%
<b>S</b>	0.375%	0.70%	0.375%*	0.76%*

\* Please note that OGC figures for this share class are estimated; this share class will be launched on the Effective Date to facilitate the Merger.

#### Impact on the Shareholders of the Receiving Fund

The Board believes that this Merger will not cause a dilution in performance of the Receiving Fund.

#### **IV. Valuation Criteria of Assets and Liabilities**

All outstanding liabilities of the Merging Fund and the assets of the Merging Fund will be valued in accordance with the valuation principles contained in the Articles and the Prospectus on the Effective Date (as defined below).

Outstanding liabilities generally comprise fees and expenses due but not paid as reflected in the net assets of the Merging Fund.

The Merging Fund has no outstanding set-up costs. The expenses incurred in the Merger, including the legal, audit and regulatory charges will be borne by the Management Company. To ensure the equitable treatment of the Merging Fund's shareholders during the period from the date upon which they are given notice of the Merger until and including the last dealing day, the threshold which triggers a dilution adjustment in the Merging Fund, as described in Section 2.4(D) of the Prospectus will be set to zero. During the period between the date immediately after the last dealing day until and including the date immediately before the Effective Date, the Merging Fund's portfolio shall be adjusted to facilitate its merger with the Receiving Fund's portfolio and the portfolio trading transaction costs of that adjustment will be included in the calculation of the net asset value of the Merging Fund according to the Company's normal accounting principles.

Any additional liabilities accruing after 1 p.m. (Luxembourg time) on the Effective Date will be borne by the Receiving Fund.

<sup>1</sup> Percentages are per annum and are stated with reference to the net asset value per share. The OGCs include, where applicable, the distribution charge, shareholder servicing charge, investment management fee and other administration costs including the fund administration, custodian and transfer agency costs. They include the management fees and administration costs of the underlying investment funds in the portfolio. The OGCs are as at March 2018.

## Appendix

## Key Features Comparison Table

The following is a comparison of the principal features of the Merging Fund and the Receiving Fund. Both are sub-funds of Schroder International Selection Fund. Full details are set out in the Prospectus and shareholders are also advised to consult the KIID of the Receiving Fund.

	<b>Merging Fund Schroder International Selection Fund — European Equity (Ex UK)</b>	<b>Receiving Fund Schroder International Selection Fund — European Alpha Focus</b>
<b>Prospectus Investment Objective and Policy</b>	<p>Objective:</p> <p>The Fund aims to provide capital growth by investing in equity and equity related securities of companies listed in Europe (excluding the UK).</p> <p>Policy:</p> <p>The Fund invests at least two-thirds of its assets in equity and equity related securities of companies listed in Europe (excluding the UK).</p> <p>The Fund may use derivatives with the aim of reducing risk or managing the Fund more efficiently. The Fund may also invest in money market instruments and hold cash.</p>	<p>Objective:</p> <p>The Fund aims to provide capital growth by investing in equity and equity related securities of European companies.</p> <p>Policy:</p> <p>The Fund invests at least 75% of its assets in a concentrated range of equity and equity related securities of companies that are incorporated in the European Economic Area. The Fund will typically hold up to 35 companies. As the Fund is index-unconstrained it is managed without reference to an index.</p> <p>The Fund may use derivatives with the aim of achieving investment gains, reducing risk or managing the Fund more efficiently. The Fund may also invest in money market instruments and hold cash.</p>
<b>KIID Objectives and Investment Policy</b>	<p><b>Objectives</b></p> <p>The Fund aims to provide capital growth by investing in equities of companies listed in Europe (excluding the UK).</p> <p><b>Investment Policy</b></p> <p>The fund invests at least two-thirds of its assets in equities of companies listed in Europe (excluding the UK).</p> <p>The fund may use derivatives with the aim of reducing risk or managing the fund more efficiently. The fund may also invest in money market instruments and hold cash.</p>	<p><b>Objectives</b></p> <p>The fund aims to provide capital growth by investing in equities of European companies.</p> <p><b>Investment Policy</b></p> <p>The fund invests at least 75% of its assets in a concentrated range of equities of companies that are incorporated in the European Economic Area.</p> <p>The fund aims to generate capital growth through the construction of a concentrated 'best ideas' portfolio. The fund will typically hold up to 35 companies.</p> <p>The fund may use derivatives with the aim of achieving investment gains, reducing risk or managing the fund</p>

In accordance with article 71 of the Law the criteria adopted for valuation of the assets and liabilities on the date for calculating the exchange ratio will be validated by the approved statutory auditor of the Company.

#### **V. Calculation Method of Exchange Ratio**

On the Effective Date, the Merging Fund will transfer its net assets to the Receiving Fund. Shares in the Merging Fund will be cancelled and shareholders will receive shares in the Receiving Fund, which will be issued without charge, without par value and in registered form (the **New Shares**). The exchange ratio of the Merger will be the result of the ratio between the net asset value of the relevant class of the Merging Fund and the net asset value or initial issue price of the relevant class of the Receiving Fund. The total value of the New Shares will correspond to the total value of the shares held in the Merging Fund. While the overall value of the Shareholders' holdings will remain the same, Shareholders may receive a different number of shares in the Receiving Fund than they had previously held in the Merging Fund.

In accordance with article 71 of the Law the calculation method of the exchange ratio will be validated by the approved statutory auditor of the Company.

#### **VI. Effective Date**

The planned effective date of the Merger is 4 July 2018, or any other date determined as necessary by the Management Company acting upon delegation of the Board and as disclosed in the notices to be sent to the shareholders in accordance with article 72 of the Law (the **Effective Date**).


#### **VII. Rules applicable to the transfer of assets and exchange of shares**

On the Effective Date, the net assets attributable to each class of shares of the Merging Fund will be transferred to the corresponding share classes of the Receiving Fund.

In exchange for this transfer, holders of shares of the relevant classes of the Merging Fund shall receive New Shares of the classes concerned of the Receiving Fund.

Simultaneously, the shares of the Merging Fund will be cancelled. The Merging Fund will continue to exist until the date on which all its liabilities will have been discharged and its liquidation will be closed as of that date.

Luxembourg, 9 May 2018

  
**Patrick Stampfli**  
Authorised Signatory

  
**Alastair Woodward**  
Authorised Signatory

	<b>Merging Fund Schroder International Selection Fund — European Equity (Ex UK)</b>	<b>Receiving Fund Schroder International Selection Fund — European Alpha Focus</b>
		more efficiently. The fund may also hold cash.
<b>Synthetic Risk and Reward Indicator (SRRI)</b>	Category 6	Category 6
<b>KIID risk disclosures**</b>	<p>Capital risk / distribution policy: the expenses of this share class are paid out of capital rather than out of investment income. Capital growth will be reduced and in periods of low growth capital erosion may occur.</p> <p>Counterparty risk: The counterparty to a derivative or other contractual agreement or synthetic financial product could become unable to honour its commitments to the fund, potentially creating a partial or total loss for the fund.</p> <p>Currency risk: The fund can be exposed to different currencies. Changes in foreign exchange rates could create losses.</p> <p>Derivatives risk: A derivative may not perform as expected, and may create losses greater than the cost of the derivative.</p> <p>Equity risk: Equity prices fluctuate daily, based on many factors including general, economic, industry or company news.</p> <p>Leverage risk: The fund uses derivatives for leverage, which makes it more sensitive to certain market or interest rate movements and may cause above-average volatility and risk of loss.</p> <p>Liquidity risk: In difficult market conditions, the fund may not be able to sell a security for full value or at all. This could affect performance and could cause the fund to defer or suspend redemptions of its shares.</p> <p>Operational risk: Failures at service providers could lead to disruptions of</p>	<p>Counterparty risk: The counterparty to a derivative or other contractual agreement or synthetic financial product could become unable to honour its commitments to the fund, potentially creating a partial or total loss for the fund.</p> <p>Currency risk: The fund can be exposed to different currencies. Changes in foreign exchange rates could create losses.</p> <p>Derivatives risk: A derivative may not perform as expected, and may create losses greater than the cost of the derivative.</p> <p>Equity risk: Equity prices fluctuate daily, based on many factors including general, economic, industry or company news.</p> <p>Leverage risk: The fund uses derivatives for leverage, which makes it more sensitive to certain market or interest rate movements and may cause above-average volatility and risk of loss.</p> <p>Liquidity risk: In difficult market conditions, the fund may not be able to sell a security for full value or at all. This could affect performance and could cause the fund to defer or suspend redemptions of its shares.</p> <p>Operational risk: Failures at service providers could lead to disruptions of fund operations or losses.</p>

	<b>Merging Fund Schroder International Selection Fund — European Equity (Ex UK)</b>	<b>Receiving Fund Schroder International Selection Fund — European Alpha Focus</b>
	fund operations or losses.	
<b>Profile of the Typical Investor</b>	The Fund may be suitable for Investors who are more concerned with maximising long term returns than minimising possible short term losses.	The Fund may be suitable for Investors who are more concerned with maximising long term returns than minimising possible short term losses.
<b>Fund Category</b>	Specialist Equity Fund	Specialist Equity Fund
<b>Fund Currency</b>	EUR	EUR
<b>Launch Date</b>	12 March 2014	03 March 2011
<b>Total Fund Size (EUR million) as at 8 May 2018</b>	EUR 61	EUR 113
<b>Dealing Cut-off Time and Settlement Periods for Subscriptions and Redemptions</b>	<p>Orders must reach the Management Company before 13:00 Luxembourg time on the dealing day to be executed that day.</p> <p>The settlement periods for subscription and redemption are within three business days following a dealing day.</p>	<p>Orders must reach the Management Company before 13:00 Luxembourg time on the dealing day to be executed that day.</p> <p>The settlement periods for subscription and redemption are within three business days following a dealing day.</p>
<b>Initial Charge</b>	<p>A: up to 5.00% of the total subscription amount (equivalent to 5.26315% of the Net Asset Value per Share)</p> <p>C: up to 1% of the total subscription amount (equivalent to 1.0101% of the Net Asset Value per share)</p> <p>S: None</p>	<p>A: up to 5.00% of the total subscription amount (equivalent to 5.26315% of the Net Asset Value per Share)</p> <p>C: up to 1% of the total subscription amount (equivalent to 1.0101% of the Net Asset Value per share)</p> <p>S: None</p>
<b>Management Fees by Share Class</b>	<p>A: 1.50% per annum</p> <p>C: 0.75% per annum</p> <p>S: 0.375% per annum</p>	<p>A: 1.50% per annum</p> <p>C: 0.75% per annum</p> <p>S: 0.375% per annum*</p>
<b>On-Going Charge</b>	<p>A: 1.88% per annum</p> <p>C: 1.08% per annum</p> <p>S: 0.70% per annum</p>	<p>A: 1.94% per annum</p> <p>C: 1.14% per annum</p> <p>S: 0.76% per annum*</p>



	<b>Merging Fund Schroder International Selection Fund — European Equity (Ex UK)</b>	<b>Receiving Fund Schroder International Selection Fund — European Alpha Focus</b>
<b>Existing and New Share Class Mapping</b>	<b>Existing Share Class Held</b>	<b>New Share Class to be Held</b>
	A Distribution EUR	A Distribution EUR*
	A Distribution GBP	A Distribution GBP*
	A Distribution GBP Hedged	A Distribution GBP Hedged*
	C Distribution EUR	C Distribution EUR*
	C Distribution GBP	C Distribution GBP*
	C Distribution GBP Hedged	C Distribution GBP Hedged*
	S Distribution EUR	S Distribution EUR*
	S Distribution GBP	S Distribution GBP*

The Merger will also apply to any additional share classes launched prior to the Effective Date.

\* This share class will be launched on the Effective Date to facilitate the Merger.