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. The directors of Schroder International Selection Fund accept full responsibility for the accuracy of the information contained in this letter and confirm, having made all reasonable enquiries, that to the best of our knowledge and belief there are no other facts the omission of which would make any statement misleading.

3 April 2017

Dear Shareholder,

Schroder International Selection Fund – Hong Kong Dollar Bond (the "Fund")

As a result of recent regulatory changes in the People's Republic of China ("PRC") which opens up the China Interbank Bond Market to eligible foreign institutional investors to access PRC onshore bonds directly ("China Interbank Bond Market Initiative"), the board of directors of Schroder International Selection Fund (the "Company") has decided to provide greater flexibility for the Fund to invest directly in PRC onshore bonds through the China Interbank Bond Market Initiative with immediate effect.

In this connection, the additional information of the Fund as disclosed in the "Fund Details" section of the Hong Kong Covering Document of the Company will be enhanced as follows:

> **"Hong Kong Dollar Bond**
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> For clarification, the Fund may invest in the PRC to achieve its investment objective through the China Interbank Bond Market Initiative. It is intended that the exposure of the Fund to PRC onshore investment through the China Interbank Bond Market Initiative will be less than 30% of the Net Asset Value.
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> The Fund may not invest:-
>
> (a) more than 10% of its Net Asset Value in Urban Investment Bonds (城投債), which means debt instruments issued by local government financing vehicles ("LGFVs") and traded on the PRC exchange-traded bond markets and interbank bond market. These LGFVs are separate legal entities established by local governments and/or their affiliates to raise financing for public welfare investment or infrastructure projects;
>
> (b) more than 5% of its Net Asset Value in asset-backed securities (including mortgage-backed securities and asset-backed commercial papers); and
>
> (c) in structured deposits or structured products.
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> The Fund does not have explicit restrictions on the minimum credit ratings of debt securities it may invest through the China Interbank Bond Market Initiative. The aggregate investment in debt securities with a credit rating below investment grade (i.e. rated below BBB- or equivalent by any internationally recognised credit rating agency, such as Standard & Poor's, Moody's or Fitch, or rated BB+ or below by any PRC domestic credit rating agency; whenever different ratings are assigned by different credit rating agencies, the lowest credit ratings assigned to the security will be adopted by the Fund) or unrated debt securities through the China Interbank Bond Market Initiative will not exceed 20% of the Fund's Net Asset Value. For this purpose, if the relevant

security does not itself have a credit rating, then reference can be made to the credit rating of the issuer of the security. If both the security and the relevant issuer are not rated, then the security will be classified as unrated.

Investors may refer to the section headed "China Interbank Bond Market" of this document for further information about the China Interbank Bond Market Initiative and the section headed "Overview of the PRC debt securities market" in Appendix I of this document for further information about debt securities issued in the PRC. "

All other key features of the Fund will remain the same. There will be no change in the Fund's investment style, investment philosophy, investment strategy and risk profile.

For further information relating to the CIBM, please refer to the Appendix for the "China Interbank Bond Market" section and the "Risks Associated with China Interbank Bond Market ("CIBM")", which will be inserted in the Hong Kong Covering Document of the Company.

Costs of making these changes including regulatory and shareholder communication costs will be borne by Schroder Investment Management (Luxembourg) S.A. which is the Company's management company.

This notification is to provide you with updated information in relation to the Fund. You are not required to take any action with respect to this letter. If you have any questions or would like more information, please contact your usual professional advisor or Schroders Investor Hotline on (+852) 2869 6968.

Yours faithfully,

Alastair Woodward
Authorised Signatory

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Authorised Signatory

Appendix

China Interbank Bond Market

China interbank Bond Market (**"CIBM"**) is the over-the-counter market for bonds issued and traded in mainland China. A new scheme was launched in 2016 to open up CIBM to eligible foreign institutional investors to access onshore bonds directly ("**CIBM Initiative**"). Under this scheme, foreign institutions can trade bonds directly through onshore settlement agents (i.e. banks) in mainland China. Unlike QFII and RQFII, there are no specific quota limits imposed on the foreign institutional investor.

Participation in the CIBM by foreign institutional investors (such as the Funds) is governed by rules and regulations as promulgated by the Mainland Chinese authorities, i.e., the People's Bank of China (**"PBOC"**) and the State Administration of Foreign Exchange ("**SAFE**"). Such rules and regulations may be amended from time to time and include (but are not limited to):

(i) the "Announcement (2016) No 3" issued by the PBOC (中國人民銀行公告[2016]第3號) on 24 February 2016;

(ii) the "Implementation Rules for Filing by Foreign Institutional Investors for Investment in Interbank Bond Markets" (境外機構投資者投資銀行間債券市場備案管理實施細則) issued by the Shanghai Head Office of PBOC on 27 May 2016;

(iii) the "Circular concerning the Foreign Institutional Investors' Investment in Interbank bond market in relation to foreign currency control" (國家外匯管理局關於境外機構投資者投資銀行間債券市場有關外匯管理問題的通知) issued by SAFE on 27 May 2016; and

(iv) any other applicable regulations promulgated by the relevant authorities.

Under the prevailing regulations in mainland China, foreign institutional investors who wish to invest directly in the CIBM may do so via an onshore settlement agent, who will be responsible for making the relevant filings and account opening with the relevant authorities. There is no quota limitation but filing with the Shanghai Head Office of PBOC in respect of an investor's anticipated investment size has to be made.

In terms of fund remittance and repatriation, foreign investors (such as the Funds) may remit investment principal in RMB or foreign currency into Mainland China for investing in the CIBM. An investor will need to remit investment principal matching at least 50% of its anticipated investment size within nine months after the completion of filing with the Shanghai Head Office of PBOC, or else an updated filing will need to be made through the onshore settlement agent. Where a Fund repatriates funds out of mainland China, the ratio of RMB to foreign currency (**"Currency Ratio"**) should generally match the original Currency Ratio when the investment principal was remitted into Mainland China, with a maximum permissible deviation of 10%.

Risks Associated with China Interbank Bond Market ("CIBM")

Market volatility and potential lack of liquidity due to low trading volume of certain debt securities in the CIBM may result in prices of certain debt securities traded on such market fluctuating significantly. A Fund investing in such market is therefore subject to liquidity and volatility risks. The bid and offer spreads of the prices of such securities may be large, and the Fund may therefore incur significant trading and realisation costs and may even suffer losses when selling such investments.

To the extent that a Fund transacts in the CIBM, the Fund may also be exposed to risks associated with settlement procedures and default of counterparties. The counterparty which has entered into a transaction with the Fund may default in its obligation to settle the transaction by delivery of the relevant security or by payment for value.

Although there is no quota limitation regarding investment via the CIBM Initiative, the Fund is required to make further filings with the PBOC if it wishes to increase its anticipated investment size. There is no guarantee the PBOC will accept such further filings. In the event any further filings for an increase in the anticipated investment size are not accepted by the PBOC, the Fund's ability to invest in the CIBM will be limited and the performance of the Fund may be unfavourably affected as a result.

Investing in the CIBM is also subject to certain restrictions imposed by the mainland Chinese authorities on fund remittance and repatriation which may potentially affect the Fund's performance and liquidity. Any non-compliance with or failure to meet the fund remittance and repatriation requirements may result in regulatory sanctions which in turn may have an adverse impact on the portion of the Fund's investment via the CIBM Initiative. Further, there is no assurance that the fund remittance and repatriation requirements in relation to investment in CIBM will not be changed as a result of change in government policies or foreign exchange control policies. The Fund may incur loss in the event such change in the fund remittance and repatriation requirements in relation to investment in CIBM occurs.

Since the relevant filings and account opening for investment in the CIBM have to be carried out via an onshore settlement agent, the Fund is subject to the risks of default or errors on the part of the onshore settlement agent. The Fund may also incur losses due to the acts or omissions of the onshore settlement agent in the process of settling any transactions. As a result, the net asset value of the Fund may be adversely affected.

In addition, investors should note that cash deposited in the cash account of the Fund with the relevant onshore settlement agent will not be segregated. In the event of the bankruptcy or liquidation of the onshore settlement agent, the Fund will not have any proprietary rights to the cash deposited in such cash account and may face difficulty and/or encounter delays in recovering such assets, or may not be able to recover it in full or at all, in which case the Fund will suffer losses.

The CIBM is also subject to regulatory risks. The relevant rules and regulations on investment in the CIBM is subject to change which may have potential retrospective effect. In the event that the relevant mainland Chinese authorities suspend account opening or trading on the CIBM, the Fund's ability to invest in the CIBM will be limited and, after exhausting other trading alternatives, the Fund may suffer substantial losses as a result.