



# AAF Schroder Euro Corporate ESG Bonds Duration Hedged

Website Product Disclosure



## Summary

### No Sustainable Investment Objective

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

### Environmental/Social characteristics of the financial product

The analysis of ESG factors is systematically integrated into the investment decision making process of ABN AMRO Funds Schroder Euro Corporate ESG Bonds Duration Hedged (the “Sub-Fund”). The External Investment Manager defines ESG integration as the process of recognising the financial materiality (or significance) of environmental, social, and corporate governance factors as part of the investment process. The Sub-Fund will use a selection of securities complying with ABN AMRO Investment Solutions (the “Management Company”) ESG responsibility criteria. The External Investment Managers must comply with the Management Company's standards of quality and go through a qualitative selection process before being retained. This process involves an in-depth analysis of the External Investment Manager's corporate social responsibility policy as well as its overall sustainability strengths going from the analysis of ESG professionals, philosophy, and investment process. Under the ESG responsibility criteria of the Management Company, the External Investment Manager is committed to conducting both negative and positive screenings as well as taking engagement actions when necessary. The Sub-Fund will be composed of issuers that are either leading in ESG best-practice or attractive due to their progression in ESG.

The Sub-Fund promotes both environmental and social characteristics. On the environmental front, the Sub-Fund promotes climate risk management. The social characteristics promoted by the Sub-Fund focus on global human rights, labour standards as well as diversity, equity, and inclusion.

### Investment Strategy

The Sub-Fund aims to provide medium term capital appreciation with a diversified and actively managed portfolio of euro corporate bonds. The Sub-Fund will use a selection of securities complying with Environmental, Social and Governance (ESG) responsibility criteria. The portfolio will be composed of issuers that are either leading in ESG best-practice or attractive due to their progression in ESG.

The portfolio is actively managed through a process that combines a macro themes analysis and a bottom-up security selection. The security selection process of the External Investment Manager incorporates a disciplined and well-defined ESG best-in-class approach. The External Investment Manager uses its proprietary ESG assessment analysis to identify leaders, laggards, and issuers with highest ESG convictions.

During the investment selection phase, the External Investment Manager analyses companies' business models from a bottom-up perspective (revenues, cost, pricing power, capital allocation and leverage as well as liquidity management play a central role) and will combine sectorial and thematic considerations. This will drive the financial credit recommendations and positioning in the fund. Analysts express their views with a rating from 1-Improving to 4-Deteriorating. In addition, analysts use their internal proprietary tool SustainEx to get an estimate of various social and environmental “costs” or “benefits” of companies, by using certain indicators and quantifying them positively (e.g., medicine provisions, connectivity) and negatively (e.g., water intensity, CO2 emissions) to produce an aggregate notional measure of the effect that the relevant underlying issuer has on society and the environment. Engagement with companies is a part of the ESG analysis and fund positioning.

For information, the Sub-Fund will aim to lower the duration by an equivalent of the duration of its Reference Portfolio using listed derivatives.

### Proportion of Investment

The Sub-Fund plans to invest at least 80% of its net assets in assets that have been determined as “eligible” as per the ESG process in place (hence in investments that are aligned with the promoted environmental and social characteristics). Consequently, up to 20% of the investments may not be aligned with these characteristics.

## Monitoring of the Environmental/Social characteristics

When the Management Company delegates part of the management of the Sub-Fund to External Investment Managers, controls are performed at two levels. With respect to pre-trade controls, the External Investment Managers perform controls using their own frameworks as well as including the guidelines given by the Management Company. With respect to post-trade controls, these are performed at both the External Investment Managers' and the Management Company's level, each using their own frameworks.

The monitoring and oversight of the environmental and social characteristics promoted by the Sub-Fund are undertaken by the External Investment Manager by way of an on-going basis using various dedicated proprietary tools; most of this information are accessible through the Aladdin system used by the portfolio managers.

The Management Company, through its Business Control & Oversight team, performs periodic ex-post controls to ensure that the portfolio complies with the commitments made. If a "non-compliant matter" is detected by the Management Company, its Business Control & Oversight team will first analyse it and engage in dialogue with the External Investment Manager if necessary. Depending on the nature of the non-compliance, the Management Company's ESG team may decide to monitor it using its proprietary "ESG Watchlist". If the non-compliance persists over time, an escalation process is put in place by the Management Company to ensure a timely remediation plan in the best interest of shareholders.

## Data sources and processing

The Management Company monitors the attainment of the environmental and/or social characteristics of the Sub-Fund using its own data providers. The Management Company uses three external data providers as its main sources. Once collected from these sources, the data is integrated and stored in the internal front-to-back tool and/or available in the Management Company's dedicated data management system (which directly and continuously obtains data from the providers). Information is also available via dedicated portals developed by external data providers, access to which is limited to specific users of the Management Company.

The External Investment Manager's primary source of information is from investee companies, through analysis of published financial and environmental, social & governance reports, where available, and engagement with company management. Information is drawn and checked from publicly available corporate information and company meetings, from broker reports, industry bodies, and research organizations, think tanks, legislators, consultants, Non-Governmental Organizations, and academics. The External Investment Manager also uses third party research and data providers as inputs into models or as support to assessment of ESG issues when assessing companies. The External Investment Manager subscribes to external ESG research and data providers including: MSCI ESG research, Bloomberg, EIRIS, Refinitiv, Sustainalytics and Morningstar, which is subject to periodic review and change.

## Due Diligence

The Management Company carries out due diligences for the selection of delegated strategies as well as for open-ended investment funds. The Management Due Diligence analysts' team (MDD) identifies and selects high quality investment strategies and monitors the universe of approved strategies. The MDD team focuses on all investment and sustainability-related elements of an investment strategy. The Management Company's in-depth analysis is based on a "5-P approach": Parent, People, Process, Portfolio and Performance. Each of the previously outlined aspects is evaluated and ultimately leads to a final rating of the strategy. As part of the monitoring process, the MDD team periodically reviews the performance of the strategy to ensure that it remains aligned with the investment style of the portfolio. The ESG team supports the MDD team in reviewing the process and methodologies implemented by the external asset managers when considering ESG and sustainability issues. The ESG team provides qualitative feedback during the selection phase and supports the MDD team throughout its analysis process, using the "5-P approach" aforementioned. In addition, during the monitoring phase, the ESG team will monitor the Sub-Fund's characteristics and performance related to the environmental and/or social characteristics defined (including the review of underlying investments).



## No sustainable investment objective

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



## Environmental/social characteristics of the financial product

The analysis of ESG factors is systematically integrated into the investment decision making process of ABN AMRO Funds Schroder Euro Corporate ESG Bonds Duration Hedged (the “Sub-Fund”). The External Investment Manager defines ESG integration as the process of recognising the financial materiality (or significance) of environmental, social, and corporate governance factors as part of the investment process. The Sub-Fund will use a selection of securities complying with ABN AMRO Investment Solutions (the “Management Company”) ESG responsibility criteria. The External Investment Managers must comply with the Management Company's standards of quality and go through a qualitative selection process before being retained. This process involves an in-depth analysis of the External Investment Manager's corporate social responsibility policy as well as its overall sustainability strengths going from the analysis of ESG professionals, philosophy, and investment process. Under the ESG responsibility criteria of the Management Company, the External Investment Manager is committed to conducting both negative and positive screenings as well as taking engagement actions when necessary. The Sub-Fund will be composed of issuers that are either leading in ESG best-practice or attractive due to their progression in ESG.

The Sub-Fund promotes both environmental and social characteristics. On the environmental front, the Sub-Fund promotes climate risk management. The social characteristics promoted by the Sub-Fund focus on global human rights, labour standards as well as diversity, equity, and inclusion.

No reference benchmark has been designated for the purpose of attaining the environmental or social characteristics promoted by the Sub-Fund.



## Investment Strategy

### Description of the strategy

The Sub-Fund aims to provide medium term capital appreciation with a diversified and actively managed portfolio of euro corporate bonds. The Sub-Fund will use a selection of securities complying with Environmental, Social and Governance (ESG) responsibility criteria. The portfolio will be composed of issuers that are either leading in ESG best-practice or attractive due to their progression in ESG.

The portfolio is actively managed through a process that combines a macro themes analysis and a bottom-up security selection. The outcome portfolio aims to combine uncorrelated sources of alpha to mitigate risk. The security selection process of the External Investment Manager incorporates a disciplined and well-defined ESG best-in-class approach. The External Investment Manager uses its proprietary ESG assessment analysis to identify leaders, laggards, and issuers with highest ESG convictions.

For credit issuers in the portfolio analysts conduct both financial analysis and ESG analysis. In financial analysis, the External Investment Manager analyses companies' business models from a bottom-up



perspective; revenues, cost, pricing power, capital allocation and leverage as well as liquidity management play a central role. That combined with sectorial and thematic considerations drive the financial credit recommendations and positioning in the fund. Governance and management quality assessment as well as ESG risk considerations (regulation/ stranded asset/ bad governance etc) affect both fundamental and ESG analysis. Analysts express their views with a rating from 1-Improving to 4-Deteriorating.

In addition, analysts use their internal proprietary tool SustainEx to get an estimate of various social and environmental “costs” or “benefits” of companies, by using certain indicators and quantifying them positively (e.g., medicine provisions, connectivity) and negatively (e.g., water intensity, CO2 emissions) to produce an aggregate notional measure of the effect that the relevant underlying issuer has on society and the environment.

Engagement with companies is a part of the ESG analysis and fund positioning and can also be relevant for financial materiality on the fundamental side.

For information, the Sub-Fund will aim to lower the duration by an equivalent of the duration of its Reference Portfolio using listed derivatives.

## Good governance practices

As part of its “Good Governance Policy”, the Management Company of the Sub-Fund determines if a company does not follow good governance practices. Companies that do not follow good governance practices are excluded from the initial investment universe of the Sub-Fund. The data source used for all below mentioned criteria and to define the pass/fail good governance test of the Management Company is Sustainalytics.

SFDR Component	Indicator	Exclusion Criteria	Description
Sound Management Structure	UN Global Compact - Principle 10	Watchlist and Non-Compliant status	Principle 10 of the UN Global Compact is related to anti-bribery and corruption and states businesses should work against corruption in all its forms, including extortion and bribery.
	Governance controversy assessment	High & Severe Levels (equivalent to levels 4/5 and 5/5)	As part of the controversy assessment, the following topics are included: accounting irregularities, bribery and corruption, anti-competitive practices, sanctions as well as board composition.
Employee Relations	UN Global Compact – Principles 3, 4, 5 and 6	Watchlist and Non-Compliant status	Principle 3, 4, 5 and 6 of the UN Global Compact are related to labour conditions. The principles state that businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; the elimination of all forms of forced and compulsory labour; the effective abolition of child labour; and the elimination of discrimination in respect of employment and occupation.
	Social Controversy Assessment	High & Severe Levels (equivalent to levels 4/5 and 5/5)	As part of the controversy assessment, the following topics are included: freedom of association, child/forced labour, health and safety, community relations, respect of human rights, labour standards, discrimination, and harassment.
Tax Compliance	Governance Controversy Assessment	High & Severe Levels (equivalent to levels 4/5 and 5/5)	As part of the controversy assessment, taxes avoidance and evasion are taken into consideration.
Remuneration of Staff	Governance Controversy Assessment	High & Severe Levels (equivalent to levels 4/5 and 5/5)	As part of the controversy assessment, remuneration is taken into consideration.



## Proportion of investments

The Sub-Fund invests at least 80% of its net assets in assets that have been determined as “eligible” as per the ESG process in place (hence in investments that are aligned with the promoted environmental and social characteristics (#1 Aligned with E/S characteristics)).

Up to 20% of the investments are not aligned with these characteristics (#2 Other). “#2 Other” includes derivatives, bank deposits at sight, including cash held in current accounts with a bank accessible at any time. These are used for Investment, hedging and efficient management portfolio purposes. There are no minimum environmental or social safeguards associated with these investments. A more detailed description of the specific asset allocation of this Sub-Fund can be found in the prospectus.



### #1 Aligned with E/S characteristics:

Includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.

### #2 Other:

Includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments.



## Monitoring of environmental or social characteristics

When the Management Company delegates part of the management of the Sub-Fund to External Investment Managers, controls are performed at two levels. With respect to pre-trade controls, the External Investment Managers perform controls using their own frameworks as well as including the guidelines given by the Management Company. With respect to post-trade controls, these are performed at both the External Investment Managers' and the Management Company's level, each using their own frameworks.

- **Management Company:** The monitoring of environmental or social characteristics of the investment product is ensured through a dedicated control framework. The Management Company, through its Business Control & Oversight team, performs periodic ex-post controls to ensure that the portfolio complies with the commitments made. If a "non-compliant matter" is detected by the Management Company, its Business Control & Oversight team will first analyse it and engage in dialogue with the External Investment Manager if necessary. Depending on the nature of the non-compliance, the Management Company's ESG team may decide to monitor it using its proprietary "ESG Watchlist". If the non-compliance persists over time, an escalation process is put in place by the Management Company to ensure a timely remediation plan in the best interest of shareholders.

- The External Investment Manager uses different tools to monitor the environmental or social characteristics of the investment product. The External Investment Manager measures the sustainability score of the portfolio using its proprietary tool, SustainEx that provides an estimate of the societal or environmental impact that an issuer may create. The External Investment Manager monitors compliance with this characteristic by reference to the weighted average sustainability score of the Fund in SustainEx over the previous six-month period. The External Manager's proprietary tools may not cover all the Sub-Fund's holdings, in which case the External Investment Manager may use alternative methods to assess relevant holdings in the Sub-Fund. The set of exclusions as well as the investment restrictions applicable to the Sub-Fund, are monitored within the External Investment Manager's portfolio compliance framework. The constraints are coded into this framework to ensure pre-trade compliance correctly flags the securities that should not enter the portfolio. Securities excluded based on revenue thresholds are evaluated quarterly by the Sustainable Investment team using MSCI's revenue data. The External Investment Manager's good governance test is done as a part of the ESG Analysis as recorded in Context, another proprietary ESG research tool which provides a systematic framework for analysing a company's relationship with its stakeholders and the sustainability of its business model. It identifies key performance drivers and data points to examine company strengths and weakness across different key stakeholder groups and is a central driver of the assessment of a company's stakeholder management. In addition, the investment teams' qualitative ESG analysis is incorporated in best effort. Alongside external ESG assessments inputs - data and analysis- from third party providers work as an additional lens, also for companies which might not be covered. The Context ESG score and the ESG score direction are available in Aladdin Explore system and are monitored by the portfolio management. In addition third party ESG rating and analysis are also used for good Governance test and is monitored in Aladdin Explore.



## Methodologies

ESG analysis is systematically integrated into the investment decision making process. As part of its ESG framework, the Management Company uses the following sustainability indicators to measure the achievement of each of the environmental or social characteristics promoted by the Sub-Fund:

- Absence of companies that do not meet the criteria defined in the Management Company's Exclusion List and that are deemed incompatible with the E/S promotion (e.g. tobacco, controversial weapons).
- Controversy Level Assessment - Controversy involvement is a key measure of ESG performance. Controversy level assessment reflects a company's level of involvement in issues and how it manages those issues.
- Compliance with the UN Global Compact - The United Nations Global Compact is the world largest corporate sustainability initiative aimed at encouraging businesses and firms worldwide to adopt sustainable and socially responsible policies, and to report on their implementation. The UN Global Compact is a principle-based framework for businesses, stating ten principles in the areas of human rights, labour, the environment, and anti-corruption. The Ten Principles of the United Nations Global Compact are derived from: the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.
- ESG Risk Scores - ESG risk scores measure a company's exposure to material industry-specific ESG risks and how the company manages those risks. This multi-dimensional way of measuring ESG risk combines the concepts of management and exposure to arrive at an absolute assessment of ESG risk.
- Scope 1 GHG Emissions - Scope 1 emissions emanate from a company's internal operations, including on-site energy production, vehicle fleets, manufacturing operations, and waste.
- Scope 2 GHG emissions - Scope 2 emissions are indirect emissions generated by the production of energy used by the company.



## Data sources and processing

The Management Company monitors the attainment of the environmental and/or social characteristics of the Sub-Fund using its own data providers.

The Management Company uses three external data providers as its main sources:

- The Management Company assesses the environmental and/or social characteristics of the Sub-Fund's constituents using the external data provider Sustainalytics. The Management Company uses Sustainalytics for ESG risk scores, controversies, product involvement as well as alignment with global standards (e.g., OECD Guidelines for Multinational Enterprises).
- The Management Company uses Morningstar to analyse the Sub-Fund's peer group, as well as for various ESG data calculations at portfolio level.
- The Management Company uses the data provider ISS for climate and impact data. The Management Company also uses ISS as a proxy voting solution.

Once collected from these sources, the data is integrated and stored in the internal front-to-back tool and/or available in the Management Company's dedicated data management system (which directly and continuously obtains data from the providers). Information is also available via dedicated portals developed by external data providers, access to which is limited to specific users of the Management Company. The Management Company verifies that the data is available, reported (or calculated), and dependable over time. On a case-by-case basis (e.g., if an ESG score is missing), the Management Company may use other sources of information to form its own opinion regarding the ESG suitability of any investment opportunity with the Sub-Fund's strategy.

The External Investment Manager has developed a range of proprietary tools, employed Sustainability analysts as well as an ESG data team to assess and understand the potential impact of sustainability risks and opportunities. The tools rely on data regarding the underlying investments. Information is drawn from publicly available corporate information and company meetings, from broker reports, industry bodies, and research organizations, think tanks, legislators, consultants, Non-Governmental Organizations, and academics.

The External Investment Manager also uses third party research and data providers as inputs into models or as support to assessment of ESG issues when assessing companies. The External Investment Manager subscribes to external ESG research and data providers including: MSCI ESG research, Bloomberg, EIRIS, Refinitiv, Sustainalytics and Morningstar, which is subject to periodic review and change.

Whilst the third parties that deliver most of the data used have been chosen carefully, data errors may occur. To address this, a dedicated ESG Data Governance team pro-actively monitors for errors and resolves data queries. This involves close collaboration with the third-party data providers and managing and tracking data corrections. Where data for a metric is not sufficiently available to form robust conclusions, the External Investment Manager does not include that metric in its tools. Where data is not available, the External Investment Manager will engage with companies to encourage them to disclose the missing data points. The External Investment Manager's proprietary tools provide flexibility allowing analysts to input data that is not publicly disclosed however has been disclosed during engagement, roadshows, company meetings, into a common framework. This additional information will be used alongside data from conventional and unconventional data sources.

Some of the External Investment Manager's proprietary tools infer missing values where applicable. Their models typically employ a range of techniques to estimate missing values where appropriate and reasonably robust. For example, in one tool, where reported values are missing for companies, the External Investment Manager fills using metric-specific rules such as filling with the industry peer group 60th percentile where higher values are considered negative and the peer group 40th percentile where higher values are considered beneficial (which is a conservative approach).





## Limitations to methodologies and data

The methodologies and data used have the following limitations:

- **Data quality:** the approach followed includes qualitative analysis of a company's ESG credentials. The methodology is subject to limitations, including reliance on the quality of data provided by investee companies or third-party research providers, as well as quantification of qualitative data.
- **Coverage:** the overall team of ESG analysts in charge of the analysis of the Sub-Fund may not be staffed to cover the entire investment universe and methodological limitations that exist. In addition, with respect to external data providers, although the number of companies covered by data providers has increased significantly over time, and continues to increase, there may be instances where a specific company is not assessed by them. This is because either the data provider does not cover the company in question, or the company has not provided the data necessary for a proper assessment by the data provider.
- **Discrepancy in ratings:** the data used for the analysis of the Sub-Fund is obtained from different data providers, which have different methodologies for assessing ESG performance. The result of their assessment is to some extent subjective and inconsistent. Moreover, the difference in data sources and processing methods used by the Management Company and the asset managers of open-ended investments funds may further add to this discrepancy in ratings.
- **Estimated data:** Not all data points are reported data and some of the data used are estimated. For example, in the case of carbon data or ESG ratings, some technical calculations may be based on estimated data (i.e., by reference to a peer group average).



## Due diligence

The Management Company carries out due diligences for the selection of delegated strategies as well as for open-ended investment funds:

- The MDD team identifies and selects high quality investment strategies and monitors the universe of approved strategies. The MDD analysts team focuses on all investment and sustainability-related elements of an investment strategy, such as organization, team, investment, portfolio construction, process, track record, etc. MDD's research reports include a thorough sustainability due diligence and a separate sustainability rating. For all strategies, MDD analysts assess the asset management company in charge of the strategy on its commitment to and transparency on ESG investing. They also assess to what extent, and at what stages, ESG criteria are integrated into the investment strategies and effectively considered in the investment process and the portfolio. This analysis is carried out by means of a questionnaire sent via the Management Company's proprietary platform, Deeligenz, as well as during meetings with the professionals involved in the strategy (e.g., portfolio managers, financial analysts, ESG analysts, management team, etc.). The Management Company's in-depth analysis is based on a "5-P approach": Parent, People, Process, Portfolio and Performance. Each of the previously outlined aspects is evaluated and ultimately leads to a final rating of the strategy.  
As part of the monitoring process, the MDD team periodically reviews the performance of the strategy to ensure that it remains aligned with the investment style of the portfolio. The MDD team provides transparency and regular monitoring of the strategy's portfolio. ESG ratings and other sustainable characteristics of the portfolio's underlying assets are also monitored regularly. In addition, MDD analysts meet periodically with portfolio managers to discuss recent performance as well as recent transactions to monitor alignment with promoted environmental and/or social characteristics. To prepare for the meeting, MDD analysts send out a monitoring questionnaire using the Management

Company's proprietary platform, Deeligenz, with questions related to the portfolio, performance, and ESG factors. During the calls, portfolio managers clarify if there were any changes in the team and processes. Analysts and investment managers also discuss recent engagements and milestones during the period. In addition, MDD analysts monitor any significant events that may affect the portfolio, e.g., with respect to their investments, financial and ESG analysts, investment process, engagement capacity. Each change may affect the strategy's 5-P based rating, which may result in a change in the strategy's ratings, including the sustainability rating.

- The ESG team supports the MDD team in reviewing the process and methodologies implemented by the external asset managers when considering ESG and sustainability issues. The ESG team provides qualitative feedback during the selection phase and supports the MDD team throughout its analysis process, using the "5-P approach" aforementioned. In addition, during the monitoring phase, the ESG team will monitor the Sub-Fund's characteristics and performance related to the environmental and/or social characteristics defined. The ESG team will also monitor the Sub-Fund's underlying investments against the overall environmental and/or social characteristics, as well as the ESG indicators for all the Sub-Fund's holdings. If a holding is identified as not meeting the environmental and/or social characteristics of the Sub-Fund, the ESG team will further investigate the issue through an internal analysis. In addition, the ESG team is responsible for periodically reviewing the exclusion lists, assessing the relevance of the latest ESG information regarding restricted companies and updating the lists, accordingly, thereby adjusting the portfolios. The ESG team also ensures the proper understanding and implementation of regulatory requirements on green finance, such as SFDR, RTS or Taxonomy, throughout the entire product range. Lastly, the ESG team is responsible for the sustainable labelling of the Management Company's product range. Overall, the ESG team plays a very transversal role in the Management Company's organization, as ESG is at the heart of its investment strategy.

The External Investment Manager carries Due Diligences. The portfolio's investment and asset selection process are reviewed and approved by the External Investment Manager's Product Development Committee that includes representatives from the Legal, Compliance, Product and Sustainable Investment functions. Ongoing compliance with the agreed sustainability characteristics is monitored by the Portfolio Compliance Team. There are no external controls on that due diligence.



## Engagement policies

As part of its sub-advisory business model, the Management Company delegates responsibility for engagement to the selected External Investment Manager. However, the Management Company does not delegate all stewardship activities and is responsible for proxy voting. The External Investment Manager may act as an advisor and guide the Management Company on specific issues that it engages with specific companies. Even when advised, the Management Company remains the final decision maker for the proxy vote.

The External Investment Manager takes an active approach to engagement. The External Investment Manager aims to drive and influence change that will protect and enhance the long-term value of investments and is committed to leveraging the weight of the firm and insights they have as investors to improve how a company is operating for the better. The External Investment Manager believes this is an important aspect of their role as stewards of clients' capital and how they help clients meet their long-term financial goals in line with their fiduciary responsibilities.

The External Investment Manager's engagement priorities can be fund specific but also can reflect the combined perspectives of the fund managers, investment analysts and sustainability specialists, when required also supported centrally by the Sustainable Investment team.

The External Investment Manager focuses on sustainability issues reflecting expectations and trends across a range of stakeholders including employees, customers, and communities, to the environment, suppliers, and regulators. By strengthening relationships with that range of stakeholders, business models become more

sustainable. The governance structure and management quality that oversee these stakeholder relationships are also a focus for engagement discussions. Firmwide the External Investment Manager currently has six broad themes for engagements: climate, natural capital & biodiversity, human rights, human capital management, diversity & inclusion, and governance.

The External Investment Manager can discuss with the companies through (i) Dialogue by communicating with companies to understand if and how they are preparing for the long-term sustainability challenges they face; (ii) Engagement by working with companies to help them to recognise the potential impact of these challenges and to help them take action in the areas where change may be required. These engagements and dialogues can take place directly with companies, led by fund managers, investment analysts and Sustainable Investment team; they can also take place in collaboration with other groups. Engagement is therefore a component of the portfolio's investment strategy over time.

The External Investment Manager recognises that effective engagement requires continuous monitoring and ongoing dialogue. Where they have engaged repeatedly and seen no meaningful progress, they will escalate concerns and depending on the outcome might divest holdings partially or fully. The approach to active investment focusses on achieving change over time. When determining when to engage and setting an objective for the engagement, aspects taken into consideration are:

- **Materiality:** For the fund, a focused engagement on a varying scale of materiality related to the sustainability threats and opportunities to the company, depending on insights or influence objectives of the engagement.
- **Regional and sector context:** Where possible country or regional initiatives, sector specific regulations and leading practice from peers are referenced in dialogue with companies.
- **Realistic outcomes:** Leading practice and what could realistically be achieved by the company in the next few years are taken into consideration, including the size of the company.
- **Ability to monitor progress:** There is a preference for measurable metrics or indicators that can be used to assess company performance on an issue. For the fund also qualitative and policy related information in respect of stakeholders is used.
- **Length of engagement:** The aim is to set short- to mid-term objectives – that can often be achieved over a 12- to 24-month periods depending on the intensity of the engagement - but with a longer-term vision in mind.

The External Investment Manager regularly monitors progress against the engagement objectives, at least annually, and at a frequency that is appropriate for the priority of the engagement and materiality of the issue or holding. That said, it is recognised that the length of time to achieve an objective will vary depending upon its nature, and that key strategic changes will take time to implement into a company's business processes. An outcome from engagement upon completion of an objective could take a range of forms, including additional disclosure by a company, influencing the company strategy on a particular issue, issuance of green and social bonds, improvement of external ESG rating, etc.

For more information, please refer to the External Investment Manager's website: <https://www.schroders.com>



## Designated reference benchmark

No specific ESG-related index has been designated for this Sub-Fund.