

Schroder ISF* Global Sustainable Convertible Bond Monthly Fund Update

Covering September 2019

Market Overview

	Fund (A Acc)	Fund (C Acc)	Fund (I Acc)
September	0.2%	0.2%	0.3%
Q3 2019	-0.7%	-0.7%	-0.6%
Year to date	5.4%	5.7%	6.2%

Source: Schroders as at 30 September 2019. All performance data shown bid to bid, net of fees (where applicable), EUR.

Past performance is not a reliable indicator of future results, prices of shares and the income from them may fall as well as rise and investors may not get the amount originally invested.

Some performance differences between the fund and the benchmark may arise because the fund performance is calculated at a different valuation point from the benchmark.

Please see the respective fund factsheets for the performance of other share classes.

Stock markets performed well at the start of September, but gave up some of the returns in the second half of the month. Fears about a further economic slowdown and on-going global trade tensions dominated the news again. Additionally, another yield curve inversion in the US as well as liquidity concerns on the US repo market scared investors. The US Federal Reserve (Fed) injected \$75 billion immediately, adding to the Fed's balance for the first time since the start of quantitative tightening in late 2018.

Market commentators also looked at the process for the possible impeachment of President Trump as a reason for weaker markets in the second half of September. We see this as more of a temporary coincidence rather than a causal link and would argue for Trump to use fiscal stimulus for the 2020 election year. However, investors clearly do not trust good stock market performance, sentiment remains subdued and the market move since June remains very much an unloved rally.

Overall, the MSCI World Index gained 1.9%. In the US, the Dow Jones Industrial Average and the S&P 500 were up 1.9% and 1.7% respectively, while the tech heavy NASDAQ advanced 0.5%. Clearly, some high tech names suffered from rather high multiples.

European bourses advanced significantly, driven by strong market gains in Germany's Dax (4.1%) and France's CAC (3.6%). Italy and Spain also showed significant gains, rising 3.7% and 4.9%. The UK's FTSE 100 finished the month of September 2.8% higher. The overall Eurostoxx was up 4.2%.

Asian markets were positive with significant gains in Japan, where the Nikkei was up 5.1%, and in Korea, with the KOSPI gaining 4.8%. In Hong Kong and China, stock markets rose by 1.4% and 0.4%, respectively.

Bond markets behaved in a similar way, with credit spreads tightening over the first two weeks and then giving back in the second half of September. Bond yields did the reverse, finishing the month a little higher.

Our fund gained 0.3% in euro terms before costs.

Portfolio Overview

We started September with an overall equity exposure at the lower range of convexity; and hence in a quite defensive positioning.

The performance effect of our large IT overweight, but US underweight, cancelled out nicely. Stock selection was the key driver and we outperformed our benchmark, despite lower equity and credit risk.

We have maintained our overall exposure and feel very comfortable in terms of absolute risk. We will remain in this setting for the time being, but are prepared to take opportunities either on the primary market, or indeed if weaker stock markets present such opportunities.

We have not changed the overall regional or sectoral positioning of the portfolio.

We remain overweight in Japan. The exposure to US convertibles is still the dominant region in our fund despite being underweight to the US in risk terms. In Europe, we have remained underweight.

At a sector level, our biggest overweight continues to be information technology. Consistent with the last few

months, we continue to be underweight in real estate, energy and consumer names.

We also continue to score well in the environment category, particularly in terms of the relatively low carbon intensity of the companies held in the portfolio (see page five).

The overall environmental, social and governance (ESG) rating for the fund remained unchanged at a high 75%. Some of our low risk positions such as **Deutsche Post**, **Deutsche Wohnen**, or **Fresenius** all come with ESG scores in the high 90s. Please also see our ESG scores broken down by stakeholders on page nine.

The primary market for convertibles was very active in September with a record \$20 billion of new convertibles hitting the market. Most of the new issues were from the US and Europe. We participated in French video game developer **Ubisoft**, but refrained from a lot of deals.

The fund's running yield stands at 0.5%. The portfolio's bond floor is at 86% while the overall credit rating of the fund stayed on a BBB average.

Outlook and Strategy

We have not changed our outlook over the last few months, and the May and early August setbacks on global stock markets did not come as a big surprise. Hence, it is fitting to repeat the first paragraph from previous newsletters:

Geopolitical risk is abundant as ever. Like a lighthouse with its rotating spotlight only parts of the rocky cliffs are in the news headlines. Italian financials and the dire budget situation literally light up, to be followed by the China-US tariff wars, before the light moves on to Brexit chaos in the UK. Sluggish data from Germany, with a special focus on its car industry, and the credit cycle in China are dominating the news. Every now and then, our lighthouse beam did not light up any rocks or dangers at all. Far from it, investors are back believing in a central bank put to keep the bull market going. Currently, leading economic indicators state that the world economy is in the bad state and the risks of heading for a further slowdown have advanced.

Central banks around the world have entered into highly supportive monetary policies once more, and the struggle between sluggish growth and even recessionary fears on one side, and lower interest rates and quantitative easing on the other is on. As always in this environment, the idiom "don't fight the Fed" comes to mind. Moreover, we are positive that central banks can kick-start the economic

carousel once more. Still, the coming weeks can remain tricky for stock markets as market participants are clearly not fully backing the moves and the general sentiment remains lukewarm at best. The latest purchasing managers index (PMI) readings for the US and for Sweden act as an early warning and indicate a severe risk of a technical recession.

Let us turn a bit more confident though as we are waiting for new opportunities to deploy risk – similar to what we did in late 2018. There are opportunities to buy back some convertibles, which are now trading below their July highs, and new ideas provided by a robust primary market. Overall, however, we maintain a defensive stance going into the last quarter.

To that extent, we will also keep our longer-term credit view. The volume in BBB- (the lowest investment grade rating) corporate bonds has reached a record high and looks like a very crowded trade. Once companies face higher refinancing costs, they may be downgraded, triggering a vicious cycle of selling pressure and illiquidity. Convertible bonds are not immune to default risk, but the investable universe is dominated by strong companies with an implied IG rating.

In general, this level of protection is dependent on several factors: the amount of equity exposure in convertible

bonds, the distance to the bond floor (the safe fixed income element of convertible bonds), the credit risk or estimated risk the company will default and, finally, the current valuation of convertible bonds. In addition, the current set up of the balanced convertible universe looks protective compared to historic characteristics. The overall equity exposure in the fund sits at a low 26% with a solid 86% bond floor. The overall credit rating is a stable

BBB average, which gives comfort that these companies will survive in conditions that are more difficult.

Crucially, the asset class remains fairly priced. Japan and Asia ex Japan continue to offer discounts to fair value. Altogether current levels look attractive.

Risk Considerations

When interest rates are very low or negative, the fund's yield may be zero or negative, and you may not get back all of your investment.

Changes in China's political, legal, economic or tax policies could cause losses or higher costs for the fund.

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.

A failure of a deposit institution or an issuer of a money market instrument could create losses.

A decline in the financial health of an issuer could cause the value of its bonds to fall or become worthless.

The fund can be exposed to different currencies. Changes in foreign exchange rates could create losses.

A derivative may not perform as expected, and may create losses greater than the cost of the derivative.

Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty and operational risk.

High yield bonds (normally lower rated or unrated) generally carry greater market, credit and liquidity risk.

A rise in interest rates generally causes bond prices to fall.

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.

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.

Failures at service providers could lead to disruptions of fund operations or losses.

Fund Data as at 30 September 2019 **

Team

Portfolio managers Dr. Peter Reinmuth
Dominique Braeuninger, CFA

Size & Holdings

Fund size in base currency (EUR million) 185

Number of issues 92

Portfolio Statistics***

ESG score 75%

Equity Exposure 26.23%

Delta 37.93%

Bond Floor 85.98%

Average Rating BBB

Credit Spread (bp) 149

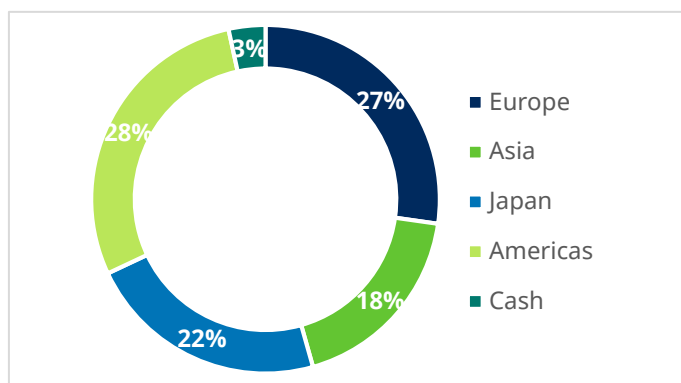
Yield 0.49%

Effective Duration (years) 2.65

Bond floor: the lowest value that convertible bonds can fall to, given the present value of the remaining future cash flows and principal repayment.

Delta: the sensitivity of the convertible bond price to the change in price of the underlying shares.

Region Allocation



Sectors

Consumer Discretionary 14.97%

Consumer Staples 0.12%

Energy 0.00%

Financials 3.86%

Health Care 10.90%

Industrials 12.62%

Information Technology 31.07%

Materials 11.44%

Real Estate 7.54%

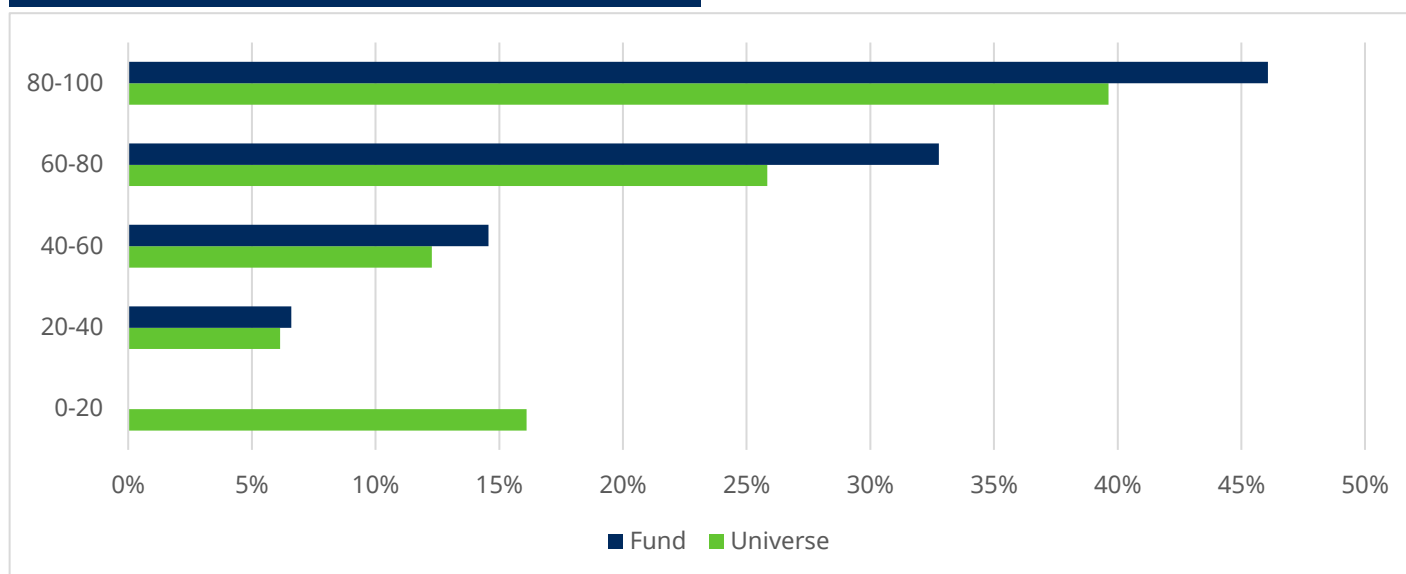
Telecommunication

Services 4.10%

Utilities 0.00%

Cash 3.39%

ESG scores****



**Source: Schroders as at 30 September 2019. Please note that the regional split follows the underlying equity rather than the issuer.

***Average credit quality is based on official ratings where available and implied ratings. Yield is estimated on a running yield basis.

**** ESG scores vs a broad non-ESG compliant universe as measured by the convertible index Thomson Reuters Global with over 450 securities.

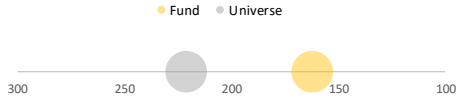

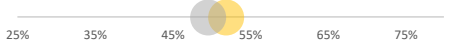




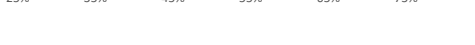

Investment strategy

Schroder ISF Global Sustainable Convertible Bond seeks to provide a return of capital growth primarily through investment in a portfolio of convertible securities issued by companies worldwide which meet the manager's sustainability criteria. We focus on ESG (environmental, social, and governance) criteria in the investment process and portfolio construction. Our proprietary ESG scores rank the ESG qualities of companies per sector between 0% and 100%.

Visit www.schroders.lu/sustainabilityaccreditation/ for more information about our fund ESG accreditation

30.09.2019

Sustainability performance measures

Category	Measure	Description	Units	Fund	Universe	Summary (right indicates stronger performance)
Environment	Carbon intensity	Scope 1&2 GHG emissions relative to each \$1mn of sales	Tonnes of CO2 per \$mn sales	162	221	
	Policy Energy Efficiency	Does the company publish a policy to improve energy efficiency?	% of companies with a policy on energy efficiency in place	58%	53%	
	Policy Emissions Reduction	Does the company publish a policy to reduce GHG emissions?	% of companies with a policy on emission reduction in place	52%	50%	
Social	Policy Human Rights	Does the company publish a policy governing human rights standards of its operations	% of companies with a policy on human rights in place	45%	32%	
	Employee Fatalities	Employees killed during the year, while at work	Annual number of employee fatalities resulting from operational accidents	2.1	1.6	
	Employees Community Work Program	Is there a program for employees to volunteer with community initiatives?	% of companies with Employees Community Work programs in place	66%	52%	
Governance	Independent Board Members	Percentage of independent directors on the Board	% of total directors who are independent	56%	62%	
	CEO-Chairman Separation	Are the CEO and Chairman separate role (different people)?	% of companies with separate CEO and Chairman	55%	51%	
	Board Gender Diversity	Percentage of women on the Board	Average percentage of women on Board	16%	19%	

Source: Thomson Reuters ASSET 4. Data represents the latest available data as at 30 June 2019. Note: All of the analysis shown is based on company-disclosed information collected and provided by Thomson Reuters. We recognise that some judgement is applied in determining these specific datapoints (for example, whether a broad Corporate Social Responsibility policy which refers to energy efficiency constitutes an energy efficiency policy). We have calculated the weighted average for each metric for the fund and benchmark. For further details on each metric, please refer to the Additional information on sustainability performance measures on the following page.

Top 5 Positions

LG CHEM LIMITED 0.0000 CONV 16/04/2021 REGS
 underlying stock: LG Chem Ltd
 weight: 3.17% sector: Materials



Customers
 Employees
 Environment
 Governance
 Local communities
 Management Quality
 Regulators & governments
 Suppliers

Very strong
 Strong
 Strong
 Strong
 Moderate
 Moderate
 Strong
 Strong

ESG

98.22

mitsubishi chemical holdings corporation 0.0000 CONV 30/03/2022 REGS
 underlying stock: Mitsubishi Chemical Holdings Corp
 weight: 2.30% sector: Materials



Customers
 Employees
 Environment
 Governance
 Local communities
 Management Quality
 Regulators & governments
 Suppliers

Weak
 Moderate
 Moderate
 Strong
 Strong
 Moderate
 Strong
 Moderate

ESG

79.82

DEUTSCHE POST AG 0.0500 CONV 30/06/2025 REGS
 underlying stock: Deutsche Post AG
 weight: 2.18% sector: Industrials



Customers
 Employees
 Environment
 Governance
 Local communities
 Management Quality
 Regulators & governments
 Suppliers

Strong
 Weak
 Very strong
 Very strong
 Strong
 Moderate
 Strong
 Weak

ESG

100

SBI HOLDINGS INC 0.0000 CONV 13/09/2023 SERIES
 underlying stock: SBI Holdings Inc/Japan
 weight: 2.15% sector: Financials



Customers
 Employees
 Environment
 Governance
 Local communities
 Management Quality
 Regulators & governments
 Suppliers

Very strong
 Very weak
 Very weak
 Strong
 No Data
 Moderate
 Moderate
 Very weak

ESG

76.9

DIGITAL GARAGE INCORPORATED 0.0000 CONV 14/09/2023 SERIES REGS
 underlying stock: Digital Garage Inc
 weight: 2.12% sector: Information Technology



Customers
 Employees
 Environment
 Governance
 Local communities
 Management Quality
 Regulators & governments
 Suppliers

Moderate
 Weak
 Very weak
 Moderate
 Very weak
 Moderate
 Weak
 No Data

ESG

46.63

Source: Schroders

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