

## Schroder Sustainable Global Core Fund

### Overview

The Sustainable Global Core Fund is an actively managed strategy designed to deliver modest incremental outperformance with limited index-relative risk. The strategy is also active in all areas of ESG<sup>1</sup> with sustainable investing a key research priority for the team for many years. The Fund is managed by Schroders' QEP Investment team which analyses a global universe of over 10,000 ESG-rated companies to identify attractive opportunities, applying index relative constraints at the stock, sector and regional level in order to ensure effective diversification, manage risk and avoid any extreme outcomes.

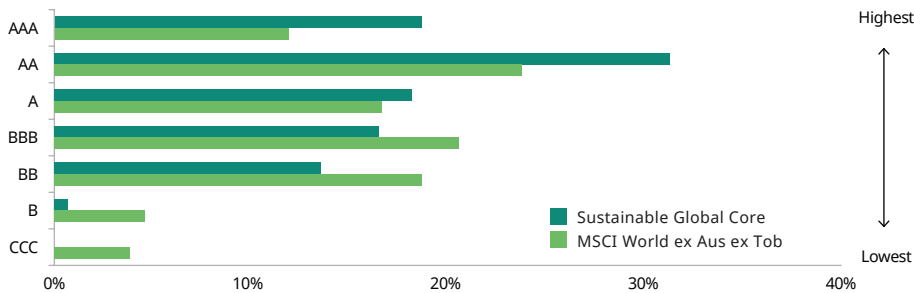
The investment process incorporates ESG considerations in several different ways: exclusions, integration, research and engagement. In terms of integration into stock selection, based on our research we allocate more capital to stocks with good ESG characteristics and penalise those which are poor. In addition to the ESG aspects of the strategy, stock selection is grounded in the analysis of company fundamentals indicating Value and Quality, and portfolios will typically exhibit a style bias towards both of these factors.

<sup>1</sup> Environmental, Social and Governance is referred to as ESG throughout.

### Strong ESG profile

Through our comprehensive ESG integration, the portfolio will generally be tilted towards stocks with a higher ESG rating and away from those with a lower one, relative to the MSCI World ex Australia ex Tobacco Index.

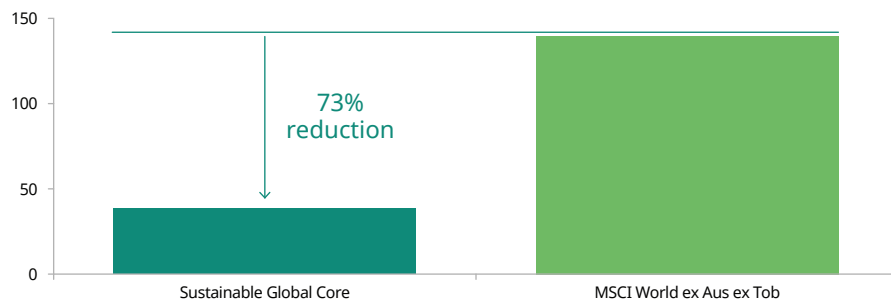
Figure 1: Positioning by QEP ESG Ratings



Source: Schroders. Based on Schroder Sustainable Global Core Fund, as at 31 March 2021. For illustrative purposes only.

In addition, as we carefully manage the environmental risks associated with companies that have large carbon footprints, the strategy has a much lower carbon intensity than the constituents of the MSCI World ex Australia ex Tobacco Index.

Figure 2: Weighted average Carbon Intensity (Scope 1 + 2, t/M\$ Sales)\*



### Investment philosophy

There are three distinct components to the team's investment philosophy:

1. All stock selection is focused on two key fundamental drivers of long-run equity returns: stock valuations (determined across measures of dividends, cashflow, earnings and assets) and business quality (as defined by measures of profitability, stability, financial strength, governance and sales growth). The strategic diversification between Value and Quality offers investors the potential for outperformance across a broad range of environments.
2. We then use quantitative tools to 'scale up' our process, which allows us to access the best opportunities across a broad global universe. These tools enable us to maximise the opportunity set and re-balance portfolios in a disciplined way as opportunities evolve.
3. Finally, experienced investors are responsible for implementing every trade decision, providing an important sense check that the process is working as it should and that portfolios' risk profiles remain appropriate. They also feed back insights on portfolio behaviour or potential upcoming risks and return opportunities to the team to help guide future research.

\*Source: MSCI, CarbonMetrics, Schroders. Based on Schroder Sustainable Global Core Fund, as at 31 March 2021. For illustrative purposes only. Scope 1: GHG emissions from sources directly controlled by the company; Scope 2: GHG emissions produced from the generation of energy produced by a third party and consumed by the company; Scope 3: All other indirect emissions, e.g. employee travel, waste disposal, etc.

## ESG integration

### The team incorporates ESG factors into the investment process in a number of ways

**1. Exclusions.** We implement both industry-specific and revenue-based exclusions of companies facing increased risk given their business involvements, for example predatory lending and tobacco.

**2. Investment-led approach to ESG integration.** ESG considerations are integrated into our fundamental analysis of companies through our proprietary QEP ESG Rating. In addition, we assess political and ESG risk at a country level and monitor developing positive and negative themes through our QEP Thematic Monitor.

Governance is incorporated as a key component of our assessment of business quality. Alongside our more

traditional measures of profitability, stability, financial strength and sales growth, our view of business quality incorporates QEP governance as a fifth component. Quality is one of our two key drivers of fundamental returns and Governance, within this, has a direct impact on our assessment of the attractiveness of the stocks we analyse.

**3. Ongoing research.** We analyse key ESG themes to look for opportunities to integrate these insights into our processes.

**4. Active Impact: Engagement and Voting.** Working in partnership with Schroders' Sustainable Investment team, we have an active programme of company engagement.

## About the team

The QEP Investment Team was established in 1996 and consists of 30 members based in London, Sydney and New York. The team manages around A\$31 billion across a comprehensive range of global and emerging market equity strategies.

Our clients are located all over the world and include pension funds, insurance companies and sovereign wealth funds.

Source: Schroders, team as at May 2021 and assets as of 31 March 2021.

## Risk disclosures

All investments, domestic and foreign, involve risks including the risk of possible loss of principal. The market value of the portfolio may decline as a result of a number of factors, including adverse economic and market conditions, prospects of stocks in the portfolio, changing interest rates, and real or perceived adverse competitive industry conditions.

Investing overseas involves special risks including among others, risks related to political or economic instability, foreign currency (such as exchange, valuation, and fluctuation) risk, market entry or exit restrictions, illiquidity and taxation. These risks exist to a greater extent in emerging markets than they do in developed markets.

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## Key features

### Investment Objective

Deliver repeatable outperformance with low index relative risk

### Active share

Typically 40%+

### Stock weights

Index +/- 0.5%

### Sector / region weights

Index +/- 2.5%

### Management costs (for Wholesale Class only)

0.30% p.a.

Source: Schroders. Guidelines only and subject to change.

## Benefits of our approach

### Investment-led approach to ESG integration

The breadth of our global universe accompanied with investment focused proprietary QEP ESG Ratings ensure that we are able to fully integrate ESG into our process in an additive manner alongside analysis of valuation and business quality.

### Based on existing proven strategy

Being based on the long-running QEP Global Core strategy, investors can have confidence in our tried and tested approach.

### Solid grounding in fundamentals

While ESG factors are clearly important in the stocks we own, we do not compromise on fundamentals and focus on the two complementary drivers of Value and Quality.

### Maximised opportunity set

Our universe consists of over 10,000 ESG-rated companies, which enables us to find the best investments wherever they lie, many of which may be below the radar of other managers.

### Quantitative framework

One of the advantages of the team's quantitative framework is that we are able to analyse and process large volumes of information, including over 400 ESG data points.

### Portfolio construction expertise

Our team is skilled in creating an efficient trade-off between potential risks and rewards, and risk management is integrated throughout our investment process.

### Active engagement

We continually review our positions in companies with potential ESG concerns, encouraging positive change where we can, but divesting where the outcome of engagement is disappointing.