Marketing material for Professional Clients and Qualified Investors only

Schroder International Selection Fund BlueOrchard Emerging Markets Impact Bond

Annual Impact Report 2023

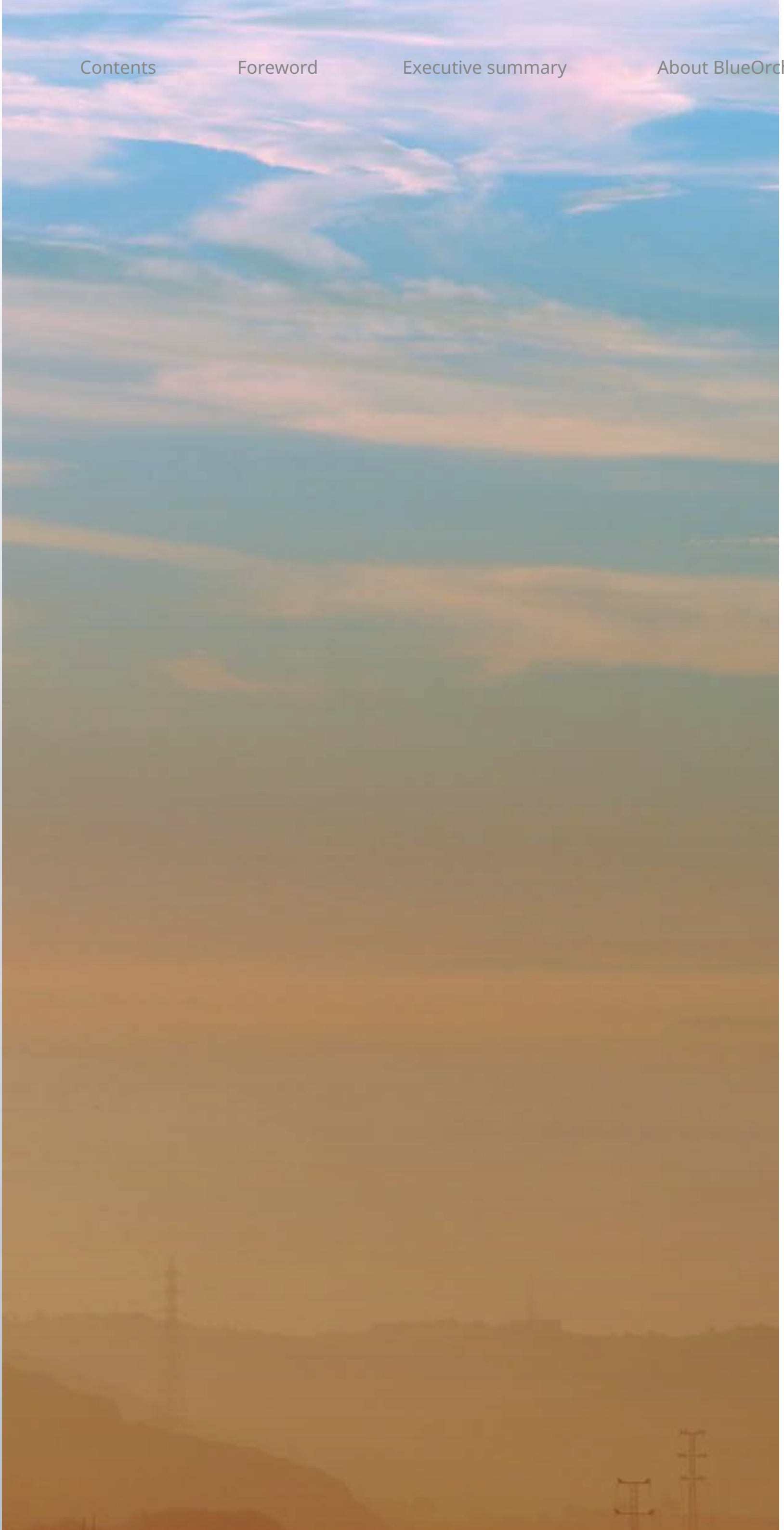
BlueOrchard
Impact Investment Managers

Member of the Schroders Group

Schroders

Contents

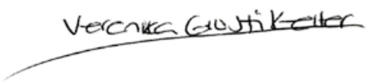
[1]Schroder International Selection Fund is referred to as Schroder ISF throughout this document. Schroder International Selection Fund BlueOrchard Emerging Markets Impact Bond was launched in December 2022 to accommodate a transfer of shareholders from the BlueOrchard UCITS Emerging Markets SDG Impact Bond Fund to the Schroder International Selection Fund SICAV. Prior to 14 December 2022, the Fund uses the track record of the BlueOrchard UCITS Emerging Markets SDG Impact Bond Fund (launched on 18 August 2018).



Foreword

We are pleased to present our annual impact report, celebrating the 5th anniversary of Schroder ISF BlueOrchard Emerging Markets Impact Bond (“the Fund”). We are proud of five years of creating impact and enabling inclusive finance in emerging markets. Once again this year, the Fund and its investments have continued to foster financial inclusion in emerging markets, supporting underserved populations, microentrepreneurs and SMEs. In alignment with its impact objectives, the Fund has contributed towards multiple SDGs and impact themes. BlueOrchard’s Impact Team has diligently monitored and measured the impact of our investments, quantifying them using standard impact indicators that are tied to the contribution to the SDGs. This comprehensive reporting enables us to showcase the tangible impact the Fund has made in emerging markets, and we hope it provides valuable insights for our stakeholders

Veronika Giusti Keller
Head of Impact Management



Louis Bourgeois
Impact Manager

Anne Danker
Associate Impact Manager

Executive summary[2]

In 2018, when the Fund was initiated, it pioneered impact investing in listed debt. Five years later, BlueOrchard and its Impact Team have continued to demonstrate their commitment to impact investing in listed debt by continuously improving tools and frameworks, upholding best practices in impact management in public markets:

Towards a more comprehensive and tailored ESG approach
One notable enhancement is the further refinement of our listed debt Environmental, Social, and Governance (ESG) scorecard, which now places a strong emphasis on sector materiality. We have added specific material ESG questions and adjusted the scorecard weights based on sector and industry considerations. This ensures a more comprehensive and tailored assessment of ESG factors.

Enhancing active ownership
Additionally, BlueOrchard has implemented Schroders ActiveIQ for engagement monitoring, leading to significant improvements in monitoring, tracking, and statistical analysis of our active ownership efforts. ActiveIQ is Schroders' new proprietary tool for logging and tracking active ownership activity.

Exploring AI for operational efficiency
The use of artificial intelligence (AI) has also been explored to enhance operational efficiency. AI-powered processes, including the screening of multiple reports and policy documents for ESG analysis, have demonstrated impressive accuracy and efficiency results.

Driving better impact disclosure in public markets
In addition to continuously improving internal impact management practices, BlueOrchard has actively participated in the Impact Disclosure Taskforce, contributing to developing the Sustainable Development Impact Disclosure (SDID) guidance. As a representative on the SDID's Steering Committee, BlueOrchard has played a crucial role in advocating for better impact disclosure. By engaging in this significant initiative, BlueOrchard remains at the forefront of driving advancements in impact management and promoting greater transparency in reporting impact outcomes. This commitment further underscores BlueOrchard's leadership and dedication to advancing the field of impact management, while upholding the highest standards of accountability and disclosure.

External recognition for BlueOrchard's best-in-class impact management
Furthermore, BlueOrchard's commitment to excellence in impact management has been recognized as part of the independent verification of alignment with the Operating Principles for Impact Management (Impact Principles)[3]. The verification was carried out by the independent consultant BlueMark. BlueOrchard's impact management in listed debt aligns with the Impact Principles, scoring advanced and achieving the best assessment on all eight principles, positioning BlueOrchard on BlueMark's Practice Leaderboard[4]. This recognition underscores the effectiveness and excellence of BlueOrchard's impact management processes. The continuous efforts to refine tools and processes, adopt innovative technologies, and seek external validation demonstrate BlueOrchard's unwavering dedication to driving positive impact and upholding industry-leading practices in impact management.

To view the Alignment with the Impact Principles video please click on this QR code

Strong impact performance in 2023
In 2023, the Fund's investment in impactful bonds experienced significant growth, reaching USD 490 million, showcasing its commitment to making a positive difference. Engagements with stakeholders also saw a notable increase, reaching a total of 57 in 2023. The Fund's impact extended across various fronts, including benefitting 15,322 Micro, Small, and Medium Enterprises (MSMEs) and financing of 120,717 megawatt-hours of renewable energy generation. Despite a slight decrease, the Fund continued to support women and minorities, positively impacting the lives of 16,829 individuals, and providing access to financial services for 59,351 individuals. One million dollars invested in the Fund in 2023 has for example contributed to supporting 31 MSMEs, providing access to financial services for 121 individuals, and funding infrastructure to produce more than 245 MWh of renewable energy annually[5]. These indicators underscore the Fund's dedication to creating positive change and making a meaningful impact throughout the year 2023.

[2] Unless otherwise specified, the source for all information presented in the report is BlueOrchard as of 31 December 2023.
[3] https://www.impactprinciples.org/.
[4] https://bluemark.co/practice-leaderboard/. Full verification results in Annex.
[5] Indicators related to $1 million invested are calculated applying a factor of 1/490 to all fund levels impact indicators.

Fund Impact at a glance

Fund indicators

235
Bonds

Engagements
57

Issuers
168

100% Bonds invested in emerging markets

USD490m
Total amount invested

41
Countries

Social Impact KPIs 73% of invested bonds

MSMEs reached
15,322

59,516
Patients and students provided with essential services

16,829
Women and minorities supported

59,351
Individuals provided with access to financial services

Households with access to connectivity
301,694

Environmental Impact KPIs 27% of invested bonds

166,722tCO2e
Tons of GHG emissions reduced

Renewable energy generated
120,717MWh

651MW
Renewable energy capacity installed

About BlueOrchard

BlueOrchard is a leading global impact investment manager and member of the Schroders Group. With a legacy of over 20 years as a pioneering impact investor, the firm has made a significant impact on a global scale, reaching over 300 million people as of December 2023. Notably, BlueOrchard manages the largest commercial microfinance fund in the world, which also holds the industry's longest track record.

As an impact investment manager, our approach addresses social and environmental impact with the goal of generating a positive financial return. Our commitment to excellence has been acknowledged by our inclusion in prestigious rankings, such as the Impact Assets 50 list. In 2024, BlueOrchard has been selected as Emeritus Impact Manager which recognizes impact fund managers who have been on the IA 50 for at least five years, solidifying our position as one of the industry leaders[6]. Across its different asset classes, BlueOrchard has invested in more than 100 countries. Across its private debt and blended finance strategies, BlueOrchard has made investments in over 75 emerging and frontier markets since its inception. These investments have been facilitated through a network of over 530 financial institutions and 12 companies in the climate insurance sector. In addition, BlueOrchard's public asset funds currently provide financing to over 260 issuers in 55 countries. BlueOrchard's impact investment areas are centred around fostering positive change in the following key areas: inclusive finance, gender equality, education finance, climate insurance, energy efficiency, renewable energy, affordable housing, health, and sustainable infrastructure. Through the impact generated in these eight thematic areas, we currently contribute to 16 out of the 17 United Nations' Sustainable Development Goals (SDGs). BlueOrchard is a proven investment platform with local experts, over two decades of experience, and extensive knowledge of various asset classes.

Our global team comprises over 140 professionals from diverse cultures, nationalities, and backgrounds, united by a shared belief in the transformative power of impact investing. BlueOrchard's dedicated Impact Team consists of eight professionals. While independent, the team collaborates with the investment and other teams to ensure that impact is integrated throughout the investment process.

[6]See https://impactassets.org/ia-50/.

Impact investing in public debt markets

To view the Impact Investing in Public Debt Markets video please click on this QR code

"Today, investing in listed debt provides an even stronger alignment with the impact investing principles and its three pillars: intent, contribution, and measurement.

Investing in listed debt can have a significant impact, both in terms of scale and democratization of impact investing. Companies and sovereigns issuing listed debt have the ability to undertake large-scale projects that can create meaningful change while still being able to report detailed quantitative impact indicators.

Public markets can absorb large-scale investments, hence the capability of public markets to attract a significant amount of global assets for impact investments. Moreover, investors in listed debt have access to smaller investment minimum requirements that can be redeemed typically daily, opening up impact investing to retail and smaller investors. This accessibility makes impact investing more inclusive, enabling a wider range of individuals to participate in financing projects with environmental and social benefits.

In the past few years, doubts regarding the feasibility of measuring impact in public markets have been effectively addressed. The industry has made significant progress in developing powerful tools for measuring and managing impact of listed debt strategies. Today, investing in listed debt provides an even stronger alignment with the impact investing principles and its three pillars: intent, contribution, and measurement. The International Capital Market Association (ICMA)[7] promotes best practices and standards in the global capital markets and plays a significant role in the labelled bond market by providing guidelines and principles for issuers to follow when issuing green, social, or sustainable bonds. This helps ensure transparency and credibility in the market.

These bonds have defined eligible use of proceeds, which allows impact investors to determine whether the **impact intent** and planned use of proceeds align with their own impact objectives at the issuance or due diligence stage. This ring-fencing element also enables investors to finance specific impactful projects from a company or country.

The **contribution** pillar is considered in particular with investor engagement and by selecting investments benefiting underserved individuals and communities. Sustainable finance frameworks focused on social projects define target populations as part of their eligibility criteria. This ensures that projects with positive impact, such as affordable housing or essential services, specifically target underserved individuals, households, or SMEs. Engaging with issuers to share advice and enhance impact outcomes along with mitigating sustainability risks represents another form of investor impact contributions and additionality available in this asset class.

[7] https://www.icmagroup.org/sustainable-finance/.

Impact investing in public debt markets

Furthermore, these bonds align with impact investing through their impact reporting requirements as they disclose pre-defined impact key performance indicators (KPIs). After one year of issuance, impact and allocation reports are disclosed, presenting the bond's actual impact KPIs. This ensures the **measurability** component of impact investing is met and helps investors evaluate the level of impact they can have, both at investment and fund levels and to calculate their contribution to the SDGs.

The growth of labelled bonds, including green bonds, sustainable bonds, and social bonds, has significantly contributed to the advancement of impact investing in listed markets over the past five years . Both in terms of nominal issuances and the percentage of total debt issuances, these bonds have played a crucial role. Looking at emerging markets (EM) in 2023, the growth of the labelled bond market in EM continued to outpace the overall growth of the EM bond market, which has been a consistent trend in recent years. As a result, the share of EM-labelled bonds as a percentage of overall EM bond issuances reached 30% in 2023, compared to only 7% in 2019 and 2020[8]. This growth has expanded the investment universe for impact-oriented investors and provided more impact data for analysis and reporting, making it increasingly viable to develop robust and credible impact investing strategies in listed debt markets.

In addition to the traditional ICMA-aligned green, social, sustainable, and sustainability-linked bonds, exciting new developments have recently emerged, offering additional possibilities to strengthen impact practices for listed debt impact investors. The world of impact bonds is becoming more colourful, as the market saw new emissions of blue or orange bonds in 2023.

The sustainability and impact bond market continues to evolve, experiencing strong growth and the emergence of new innovative instruments. Overall, the ongoing evolution of the sustainability and impact bond market presents promising opportunities for investors to contribute to addressing sustainability challenges and bridging the funding gap for SDGs.

These advancements play a major role in expanding the range of investment opportunities available to impact investors. The growth and increasing credibility of impact-focused debt markets have widened the scope of listed debt impact investing strategies, allowing them to scale more easily and remain competitive in the market. The expansion provides impact investors with a broader and more diverse set of options to align their investments with their desired social and environmental outcomes.

[8]Bank of America Global Research, ESG Fixed Income Quarterly, 2024. Scope of hard currency issuances (EUR/USD).

Navigating evolving SFDR regulatory requirements

At BlueOrchard, our B.Impact™ Framework process and tools are specifically designed to ensure compliance with the Sustainable Finance Disclosure Regulation (SFDR) and the requirements of Article 9 funds. We have taken great care to align our process to comply with the regulation, by building strong in-house knowledge and expertise. For example, our process to quantitatively calculate impact indicators of our portfolio fully aligns with the SFDR and the sustainability indicators disclosure requirements.

In line with the SFDR Principle Adverse Impacts (PAIs), we leverage Schroders' resources, using multiple PAI dashboards to monitor and assess any adverse impacts at the portfolio and issuer levels. Additionally, we are following Schroders Do No Significant Harm thresholds set on PAIs since November 2023. These indicators are designed to screen out a part of the issuer universe which is strongly misaligned with the Fund's objective. These thresholds are closely monitored by our Risk Team to avoid issuers causing significant harm.

To continue our disclosure and compliance efforts, we have recently published our second periodic report, providing transparency on our sustainability practices and the impact of our investments.

With our robust processes and ongoing commitment to improvement, we are confident that we can continue to claim SFDR Article 9 status in the future. We remain dedicated to refining our tools and practices to ensure we adhere to best practices and meet the evolving regulatory requirements.

> We are confident that we can continue to claim SFDR Article 9 status in the future.

Schroder ISF BlueOrchard Emerging Markets Impact Bond

Impact strategy

Schroder ISF BlueOrchard Emerging Markets Impact Bond ("the Fund") is a liquid strategy that focuses on investing in impactful bonds issued by governments, government agencies, supranationals, and companies in emerging markets. The investments are carefully selected based on their positive contribution to advancing the SDGs, with a particular emphasis on financial inclusion, economic and social development, and environmental themes.

From its inception, the Fund has been deeply committed to its impact strategy, especially in the area of financial inclusion. BlueOrchard, with its extensive 20+ years of experience in managing the largest microfinance fund globally and its longstanding relationships with financial institutions, has played a crucial role in shaping this strategy. The Fund was created to support institutions that have outgrown the microfinance space and require a different type of financing. By investing in bonds, the Fund not only provides the necessary financing but has also allowed BlueOrchard to expand its target group from microfinance institutions to a more diverse set of sectors and institutions, contributing to the development of capital markets in emerging and frontier markets. The Fund was also established in response to investor demand for more liquid financial inclusion strategies that offer attractive returns.

As of December 31, 2023, the Fund has received an "A" ESG fund rating and 98th percentile from the sustainability-focused rating agency MSCI[9].

The Fund's exposure is twofold. Firstly, it invests in emerging market financial institutions that aim to increase underserved populations' access to financial services. Secondly, it invests in listed purpose bonds, such as social, green, or sustainability bonds, with the primary objective of expanding access to financial services, essential services, basic infrastructure, or affordable renewable energy for underserved populations. The Fund demonstrates the significant potential of impact investing in listed debt to contribute to the sustainable development of countries in emerging markets.

The Theory of Change underpins the mechanisms by which the Fund is addressing its key themes in the next page.

> From its inception, the Fund has been deeply committed to its impact strategy, especially in the area of financial inclusion.

[9]https://www.msci.com/our-solutions/esg-investing/esg-fund-ratings-climate-search-tool/funds/sisf-blueorchard-em-mkts-impact-bd-a-acc-usd/68732803.

Schroder ISF BlueOrchard Emerging Markets Impact Bond

Theory of Change

Impact	Reduced inequalities and greater economic inclusion for all	Sustainable economic growth through jobs created in MSMEs	Effective mitigation of climate change	Improved health, education, and overall quality of life for people in emerging markets	Greater inclusions and increased economic activity through better access to information and enhanced productivity
Outcome	Increased access to financial services for the most underserved populations	Increased access to finance for MSMEs	Reduced GHG[15] emissions in line with a net-zero economy by 2050	Improved availability and access to essential services such as affordable housing, basic healthcare, quality education, and water and sanitation	Improved availability and access to basic infrastructure such as mobile networks

Output	Investment universe consisting of highly impactful businesses screened against strict ESG criteria	Improved sustainability practices and maximised impact potential at investee companies	Transparent reporting to demonstrate investees' progress towards impact objectives	Long-term investment and support for impactful businesses
Activity	ESG and impact assessments to select most impactful businesses	Active engagement to drive positive change	Diligent monitoring of progress against impact targets and for sustainability practices	Provide capital with preference for primary issuances

Input	Proprietary and externally verified impact framework B.Impact™	Dedicated and independent Impact Team with 8 sustainability & impact experts	Capital

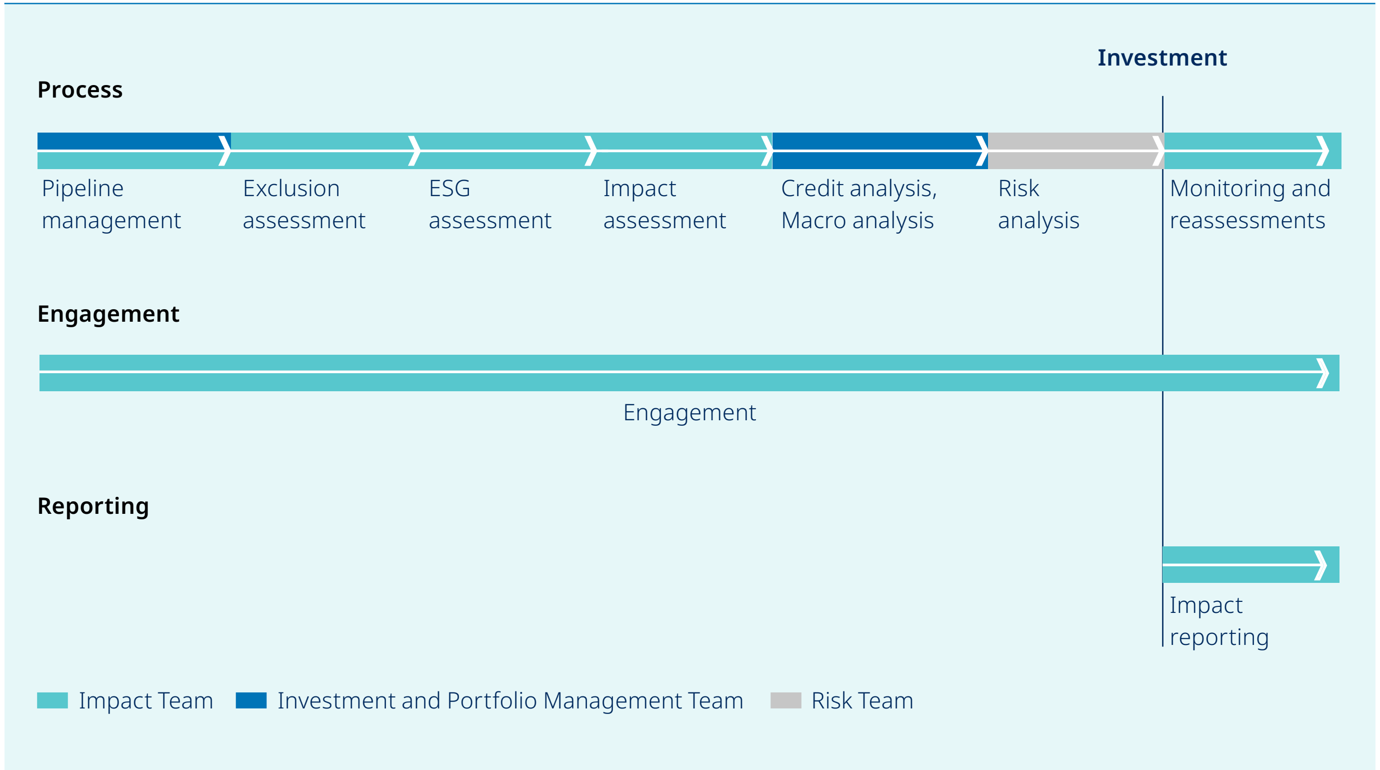
Problem	Globally, 1.4 billion adults are unbanked, mostly women, poorer, less educated, and living in rural areas.[10] Unequal access to financial services drives inequality and prevents economic opportunities.	$5.2 trillion annual financing gap for MSMEs[11], which play a significant role in job creation and economic development in emerging markets[12,13]	Annual investment gap of $1+ trillion for clean energy in emerging and developing economies to reach net-zero by 2050[14]	50% of population lacks access to basic health services,[16] and low- and lower-middle-income countries face an $148 billion annual investment gap for education.[17]	Globally, 2.7 billion people lack internet access.[18] Overall there is $15 trillion infrastructure investment gap until 2040.[19]

[10]World Bank, 2022.
[11]MSMEs = Micro, small, and medium enterprises.
[12]7 out of 10 formal jobs in emerging markets are created by SMEs.
[13]World Bank, 2023.
[14]International Energy Agency, 2021. "Financing Clean Energy Transitions in Emerging and Developing Economies".
[15]GHG = Greenhouse gas.
[16]World Health Organization, 2017.
[17]UNESCO, 2021.
[18]International Telecommunication Union, 2022.
[19]Global Infrastructure Outlook, 2023.

Schroder ISF BlueOrchard Emerging Markets Impact Bond

Impact methodology

BlueOrchard has a dedicated Impact Team that operates independently from the Investment and Portfolio Management teams and plays a crucial role in the investment decision-making process. The team is responsible for managing the impact of all BlueOrchard's mandates, conducting ESG and impact assessments, and continuously improving the B.Impact™ Framework and its assessment tools. The Impact Team also monitors and reports on the impact performance of investments. Before an investment can be approved, it must have a minimum ESG and impact score approved by the Impact Team.



Schroder ISF BlueOrchard Emerging Markets Impact Bond

B.Impact™

BlueOrchard's investment process revolves around the B.Impact™ Framework, a comprehensive approach to managing and measuring ESG risks and impact potential across asset classes and impact themes. The framework consists of three components covering sustainability performance, impact potential, and SDG alignment. The framework is applied by BlueOrchard's independent Impact Team. Assessments are based on various sources, including companies' annual and sustainability reports, policies, impact reports, and external information such as RepRisk and MSCI ESG controversies flags and data.

- The ESG scorecard assesses sustainability risks at the company level, considering environmental, social, and governance events or conditions that could negatively impact the investment's value. It also ensures that companies meet minimum safeguard standards. The ESG assessment includes metrics such as SFDR Principal Adverse Indicators related to environmental footprint, biodiversity, and corporate governance.
- The impact scorecard evaluates the potential impact of each investment based on the five dimensions of the Impact Management Project. It identifies the investment intent, establishes impact key performance indicators (KPIs), assesses stakeholders benefiting from the investment, and evaluates BlueOrchard's contribution to the intended impact. The impact scorecard also considers potential risks that may hinder the achievement of the intended impact.
- Furthermore, BlueOrchard conducts an SDG mapping at both the individual company and overall fund levels. This analysis maps impact indicators used in the impact scorecard to the relevant SDGs and their measurable targets. This mapping provides a comprehensive understanding of how investments align with the SDGs.
- At every stage of the B.Impact™ Framework process, the Impact Team can independently reject investments if it does not meet the requirements of the steps listed above. Rejections can arise from the issuer involved in excluded activities or with high ESG risk, or low impact scores of the bond. Causes of eliminatory scores can for example be the lack of disclosure or unsatisfactory indicators. The Impact Team will typically try to engage with the issuer for more disclosure and to better understand certain metrics and the mitigation of ESG risks analysed. Similarly, the Impact Team can divest from investments if the issuer or bond ESG and impact profiles have deteriorated below satisfactory levels. Divestments are also sparked by potential controversies continuously monitored by RepRisk.

B.Impact™ framework

ESG | Impact | SDG

ESG
Assesses an investee's risks and practices in relation to three categories:
- Environment
- Social
- Governance

Impact
Assesses the potential impact of each investment along five dimensions:
- What – Investment intent
- How Much – Impact KPIs
- Who – End beneficiaries
- Contribution – Value added
- Risk – Impact risks

SDG
Provides an SDG mapping and alignment at investee and fund level:
- SDG Universe
- SDG Material assessment
- SDG Impact KPIs matrix
- SDG Reporting

> The framework consists of three components covering sustainability performance, impact potential, and SDG alignment.

Schroder ISF BlueOrchard Emerging Markets Impact Bond

Impact monitoring and reporting

Measuring and reporting on impact performance is crucial to ensure the Fund delivers on its impact strategy and to transparently communicate the Fund's impact contribution to stakeholders. For this purpose, BlueOrchard has developed a comprehensive monitoring methodology that emphasizes regular review and clear attribution of impact achieved to the financing provided by the Fund. It also considers the particularities of labelled bonds compared to general-purpose bonds.

Similarly, investors of the Fund can also calculate their own funded impact, by multiplying a factor of their investment over the total fund size by the Fund's impact indicators reported on page 5.

The following chart illustrates the impact calculation methodology:

Rigorous impact calculation methodology to quantify fund-level impact

Pre-investment

Issuance level

Impact scorecard

- Identify impact themes
- Select impact KPIs
- If available: fill with impact data from issuers' impact reports
- Approve for investment if minimum score is obtained

Annually

Impact scorecard re-assessment

- Review if impact themes remain valid
- Fill with impact data from issuers' updated impact reports
- Verify if impact score still meets minimum thresholds

Portfolio level

1 Extract information from scorecards and consolidate all impact data in one database → Overview of total impact achieved by issuers

2 Calculate impact attributable to the Fund, using different methodologies for general purpose bonds and labelled bonds → Overview of impact attributable to the Fund

3 Prepare quarterly and annual impact reports → Transparent communication of impact to stakeholders

As of June 2024. Source: BlueOrchard.

Engagement

Objectives

Engagement is a core part of BlueOrchard's investment process, in particular in the context of ESG and impact assessments. Engagement is a tool to build partnerships with our issuers, gain a better understanding and visibility of their sustainability strategies, and support, encourage, and guide them towards best ESG practices and maximized impact potential. Thus, engagement is an integral component of the Fund's theory of change, playing a crucial role in achieving impact.

Engagements may be insight-driven (to collect ESG and impact-related information) or outcome-driven (to mitigate negative sustainability practices and improve disclosures).

Insight-driven engagements involve the collection of information needed for ESG and impact assessments. The Impact Team will carry out the following engagement activities: Roadshow engagements for which BlueOrchard participates in calls with the issuer 1-on-1 or as part of a larger group of investors. It allows the Impact Team to ask sustainability and impact-related questions, raise awareness about material sustainability topics among investors and the issuer, and gather data to enhance ESG and impact assessments. The Impact Team also engages with issuers on their sustainability and impact reporting to gain a better understanding and fill the information gap on sustainability practices, indicators, and disclosure. The Impact Team closely monitors impact reporting on use of proceeds bonds and will engage with issuers that are not reporting within the expected timeline of the framework.

During an investor meeting with a Latin American financial group, we were for example able to discuss multiple subjects and gain a deeper understanding of their strategy and how their activities are generating positive impact. With this active discussion spanning from understanding corporate policies to their future strategy on climate targets, the company also understood better our expectations as impact investors, both on ESG and impact subjects. We received further information and data on their financial inclusion and sustainable portfolio, with granularity on their Women-led SME lending portfolio or outreach to vulnerable populations.

Outcome-driven engagements take place after the Impact Team has identified a lack of or negative sustainability practices with an issuer. The objective is to mitigate these risks by sharing actionable suggestions and best practices with issuers. There are two types of engagement activities in this case. First, Disclosure engagements take place when the Impact Team identifies important gaps in policies and sustainability disclosures. Issuers often have the required documents but may not appreciate enough the value for investors and other stakeholders to have them publicly available. In other instances, they need resources, suggestions, and guidance to create positive outcomes and disclose information such as impact reports, environmental footprint disclosures, or key governance-related policies. Second, Sustainability practices engagements arise following a RepRisk alert, or when an issuer of a very impactful bond is nonetheless considered as "high ESG risk" and the impact management committee recommends further engagement to mitigate and improve the negative practices.

Throughout 2023, we engaged with a Middle Eastern bank regarding its green bond framework disclosure. Specifically, we asked the company to enhance its disclosure with quantitative impact metrics. This would help monitor the bond's impact KPIs and would help BlueOrchard analyse and report the impact of this investment at the bond and portfolio level. We followed up by sharing examples of best practices on impact reporting and outlining the metrics we would recommend disclosing including on renewable energy, avoided emissions, water use and treatment, and financing of clean transportation. We were pleased to see the company followed our recommendations and disclosed quantitative impact metrics in early 2024. Moreover, the report had third-party verification.

> Engagement is an integral component of the Fund's theory of change.

Schroder ISF BlueOrchard Emerging Markets Impact Bond

Engagement

New developments

In 2023, BlueOrchard further formalised its engagement practice for its listed and private investments with an engagement approach, guiding its active ownership activities.

Our approach to engagement follows multiple concepts aiming to deliver the best outcomes. An engagement should focus on the most material impact potential and sustainability risks, it should have realistic and measurable outcomes, with clear objectives defined throughout time.

Being able to track the progress and effectiveness of active ownership activities is key. A significant new development in 2023 for BlueOrchard's listed debt practice was the application of Schroder's ActiveIQ engagement platform, the group's new proprietary tool for logging and tracking active ownership activity. ActiveIQ focuses on forward-looking engagement plans and tracking progress based on a milestone approach.

In the context of investor contribution and its measurement, engagement is extremely important. Being able to record, monitor, and track the engagements done with our issuers is an important step up.

With the tool, the Impact Team can create collaborative engagement plans, set objectives, and record both insights and outcomes-driven events. The database uses clearly defined milestones and goals so progress can be tracked. ActiveIQ features an analytics portal enabling all users to monitor engagements and track whether KPIs are being met at the corporate, desk, and individual levels.

SCHRODERS | ActiveIQ

BlueOrchard actively contributes its expertise and experience in impact investing to shape impact investing markets and practices. In 2023, BlueOrchard contributed to the Impact Disclosure Taskforce[20], which aimed to provide voluntary guidance to general bond issuers, particularly in Emerging Markets and Developing Economies, on impact measurement and monitoring. The task force emphasizes intentionality, measurability, ambition, and targeting needs to attract sustainable capital. BlueOrchard's valuable contributions demonstrated its commitment to leveraging its impact investing expertise to drive positive change through sustainable investment.

[20]https://www.cgdev.org/sites/default/files/2023-11/impact-disclosure-taskforce-concept-note-FAQs_0.pdf.

Schroder ISF BlueOrchard Emerging Markets Impact Bond

Engagement statistics

BlueOrchard is tracking all engagements to have a better overview of engagement themes and results. In 2023, there were 57 engagements with 45 issuers in the Fund, representing more than a fourth of all issuers in the portfolio.

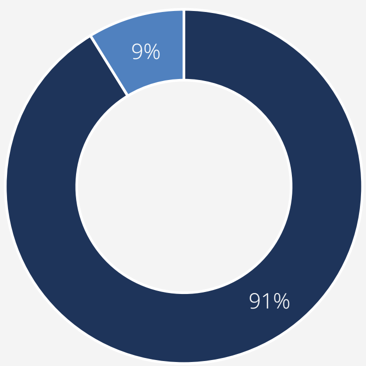
57
Engagements

45
Issuers in the Fund

Representing more than
1/4
of all issuers in the portfolio

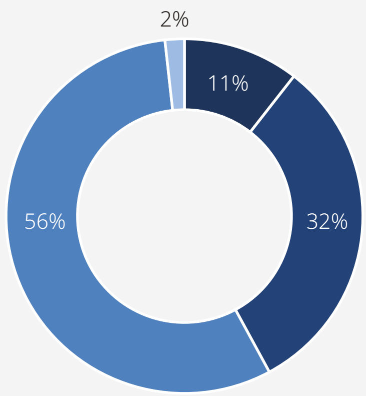
Engagement statistics

91% of engagements were insight-driven, and 9% outcome-driven.



- Insight-driven
- Outcome-driven

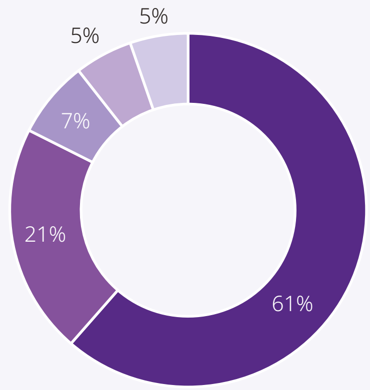
The engagement format was mostly conversation via email, led by insight-driven engagements, and roadshow investor calls during which the Impact Team shared concerns and asked for asked for further information and disclosure, before following up on the issue if needed after this first contact.



- Call (BlueOrchard only)
- Call (BlueOrchard together with external investor group)
- Email
- Formal letter

Engagement themes

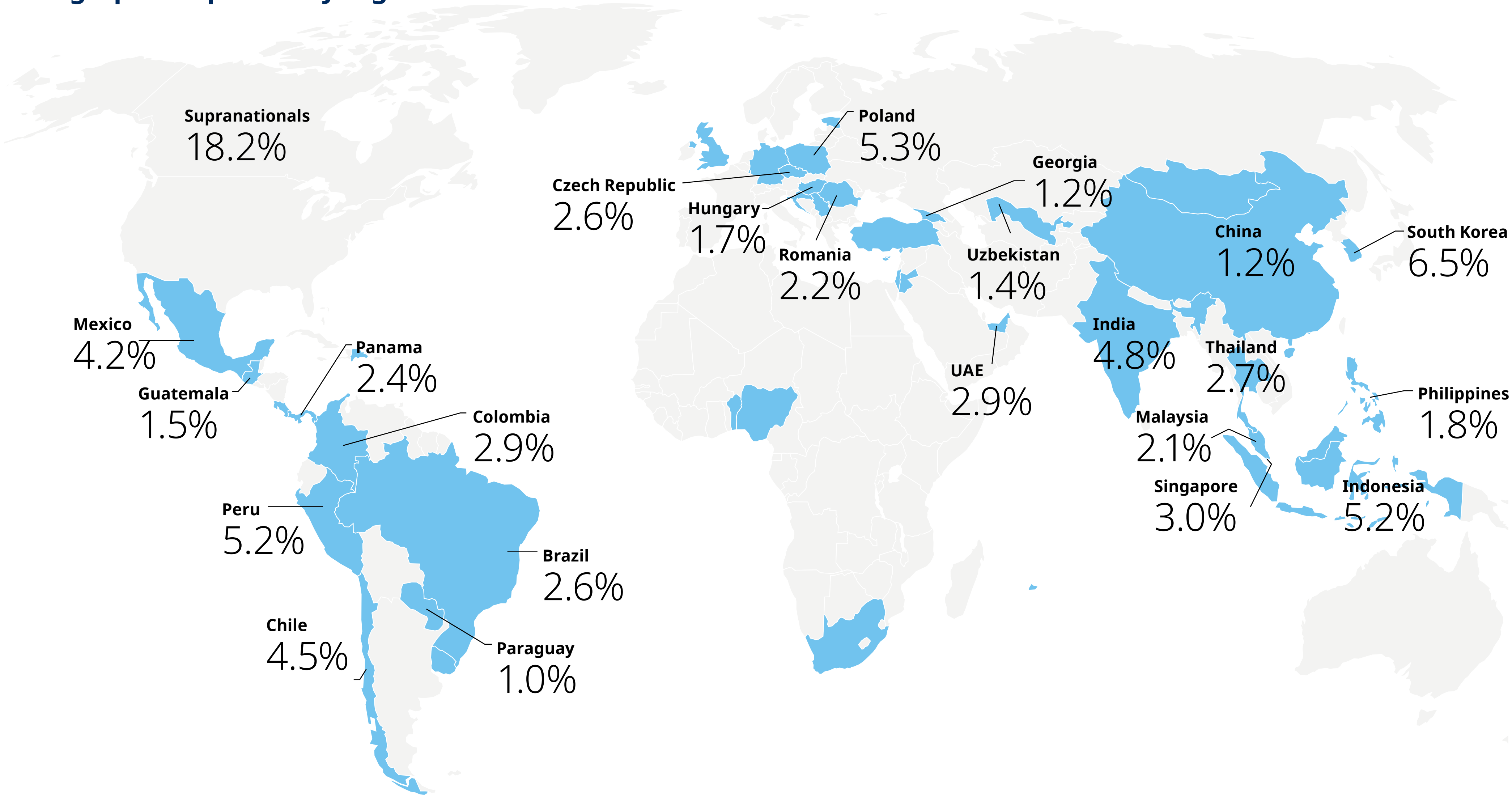
Engagements can be categorised by themes, including:



- Corporate Governance and Disclosure
- Climate Change
- Human Rights
- Diversity and Inclusion
- Natural Capital and Biodiversity

Schroder ISF BlueOrchard Emerging Markets Impact Bond

Geographic exposure by region [21, 22, 23]



[21] Standard Chartered sustainable bond: **United Kingdom** is the country of risk but the countries benefitting from the use of proceeds are included in the CEMBI Index.

[22] ProCredit Holding: situated in **Germany** with activities in Eastern Europe and Latin America.

[23] **Luxembourg**: Eleving Group, country of operations in Eastern Europe, Kenya, and Uganda.

Schroder ISF BlueOrchard Emerging Markets Impact Bond

Portfolio breakdown[24]

The impact assessment performed at the investment level measures the impact potential and performance leveraging the five dimensions of impact as defined by the Impact Management Project. The 235 bonds in the portfolio demonstrate an average score of **66 out of 100** which translates into a high-impact portfolio.

Country exposures (others)

Country	Percentage of the Fund
Paraguay	1.0%
United Kingdom	1.0%
Estonia	0.8%
Israel	0.7%
Turkey	0.5%
Mauritius	0.5%
Croatia	0.4%
Costa Rica	0.4%
Nigeria	0.3%
Uruguay	0.2%
Republic of Serbia	0.2%
Dominican Republic	0.2%
Hong Kong	0.1%
Germany	0.1%
Cyprus	0.1%
Luxembourg	0.1%
Jordan	0.1%
Benin	0.1%
South Africa	0.1%

Exposure by region for corporates and sovereign

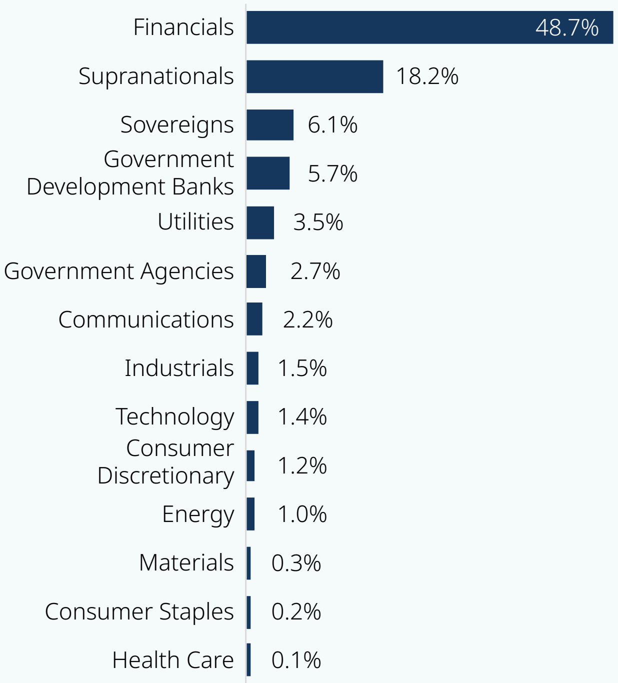
Region	Percentage of the Fund	Average impact score
Asia	34.8%	66.3
Latin America	25.0%	67.3
Europe	13.9%	62.9
Africa	0.9%	79.7
Supranational	18.2%	66.8

Exposure by region for supranationals

Region	Percentage of the Fund
Africa	7.1%
Latin America	3.6%
Global	2.7%
Asia	2.5%
Europe	2.1%
Middle East	0.2%
Total Supranationals	**18.2%**

[24]The percentage invested figures are compared to the total fund size.

Exposure by sector



The Fund's primary impact intent being financial inclusion leads to a strong focus on financials and supranationals that provide access to financial services and funding to SMEs and micro borrowers. Sovereigns score on average higher in terms of impact than any other sectors, mostly due to the scale of impact of countries and the granularity of reporting for their use of proceeds instruments.

Exposure by bond category

Bond type	Percentage of the Fund	Average Impact score
General Bond	55.3%	65.4
Green Bond	19.6%	64.3
Sustainability Bond	15.7%	72.0
Social Bond	5.5%	71.6
Sustainability-linked Bond	3.4%	59.3
Blue Bond	0.4%	59.7

A significant change, which confirms the trends in the past year, is the decrease in general bonds (55% vs 66% in 2022), to the profits of labelled bonds such as social bonds (+73%), green bonds (+41%) and sustainability bonds (+13%). BlueOrchard took advantage of the continued growth in the labelled bonds market in EM.

The Fund has significant exposure to general bonds as a result of its investments in financial institutions that facilitate inclusive finance for MSMEs and underserved populations in emerging markets. Nevertheless, this exposure has significantly decreased over the Fund's life. Sustainability bonds provide a diversified type of impact exposure, mostly to affordable housing, basic infrastructure, and essential services such as education and healthcare investments. Green Bonds are exposed mostly to renewable energy and clean transportation.

The impact intents of the Fund's social bonds are mostly in inclusive finance, women empowerment, and essential services.

Impact scores vary depending on the type of bond, with the social bond category typically achieving the highest impact score average. This is unsurprising, as the objectives of these purpose bonds are often fully aligned with the Fund's objectives. Social bonds and the social component of sustainability bonds typically define a population target to which the use of proceeds is dedicated. This often includes underserved segments of the population, such as low-income individuals benefiting from sovereign social bonds and their associated social programs, or specific types of MSMEs, such as those led or owned by women. Such documented and disclosed population targets highly increase the impact potential and the additionality of such projects and use of proceeds.

Schroder ISF BlueOrchard Emerging Markets Impact Bond

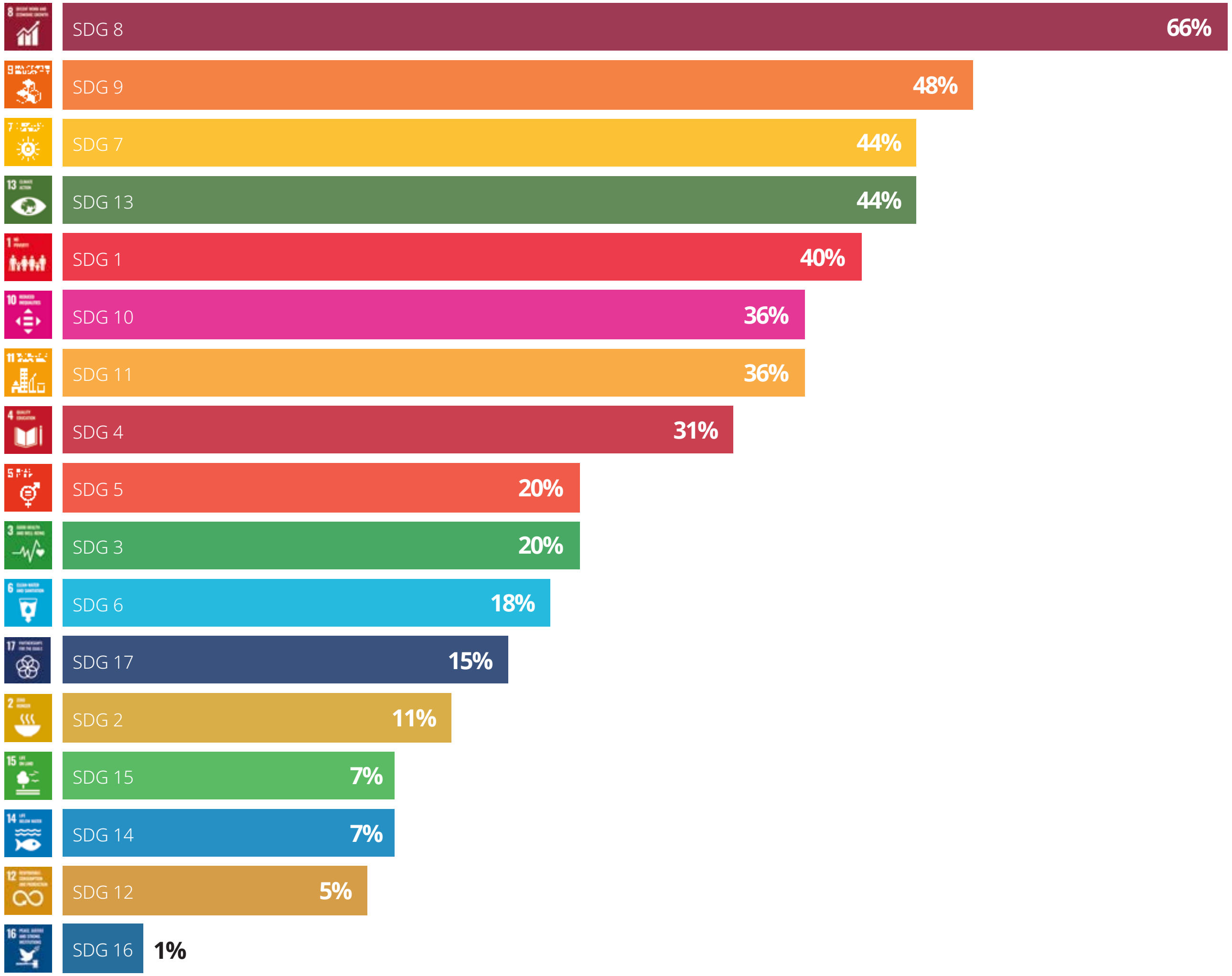
Impact themes and SDG alignment

In 2023, the Fund was primarily focused on the impact themes of inclusive finance as well as renewable energy and energy efficiency, which together made up more than half of the Fund's portfolio:

Impact focus	%
Inclusive Finance	28.5%
Renewable and Energy Efficiency	26.0%
Essential Services	11.5%
Basic Infrastructure	8.9%
Employment Generation	8.1%
Sustainable Infrastructure	8.1%
Women Empowerment	3.0%
Inclusive Trade	2.6%
Soil Quality and Biodiversity	1.7%
Affordable Housing	0.9%
Water and Marine Resources	0.4%
Resilience towards Climate Risks	0.4%
Total	**100%**

The Fund contributes to the advancement of multiple UN SDGs

Percentage of invested portfolio



Portfolio spotlights

CIMB Bank[25]

CIMB Bank is a leading financial institution in Malaysia, offering a wide range of banking and financial services in the ASEAN region.

The bank is known for its commitment to financial inclusion. Through digital banking platforms and collaborations with various stakeholders, CIMB Bank strives to empower individuals and SMEs, particularly those in underserved communities, by making banking services more accessible and promoting financial literacy. CIMB Bank is dedicated to promoting long-term economic development while upholding ethical responsibility, and social and environmental stewardship.

The bank has an emphasis on financial inclusion and access to quality healthcare in Southeast Asia by actively tackling issues like rising living costs and financial fraud. CIMB Bank strives to enhance financial literacy and broaden access to its solutions, ensuring that economic empowerment is accessible to a wider audience. In 2023, the bank trained more than 7,800 young people with their financial literacy programmes. CIMB Bank also prioritizes risk management and business resilience through regional oversight and strengthened governance and controls.

To view the Impact in Emerging Markets, Looking at: CIMB Bank Sustainability Bond video please click on this QR code

[25] All data presented in this section is taken from CIMB Bank's Sustainable Development Goals ("SDGS") Bonds, Sustainability Sukuk Progress Report 2021/22 and CIMB 2023 Sustainability Report. For illustrative purposes only and not a recommendation to buy/sell.
Image credit: ©CIMB for BlueOrchard: CIMB's Be$mart financial literacy programme. Note: Logos are the property of their respective entities.

Sustainability bond

Since 2018, the Fund has been invested in CIMB, in part through a primary issuance investment in the bank's sustainability bond which promotes financial inclusion, affordable housing, access to essential services and renewable energy.

Education financing to 60,000 students
60,000 low-cost financing to students to pursue their studies at accredited public and private institutions of higher education

1,000 low-income customers supported
Enabled more than 1,000 low-income retail customers in various parts of Malaysia to purchase homes at an affordable price

18,000 MWh of solar energy
18,000 MWh of solar energy generated annually with rooftop solar projects financed across Malaysia

This sustainability bond is fully aligned with the Fund objective of inclusive finance, with the use of proceeds primarily focused on providing access to funding for underserved individuals for affordable housing or education.

For the impact calculations at the fund level, an allocation factor of the investment size in the bond divided by the sustainability bond's outstanding amount was applied to claim the share of impact financed by the Fund during the year.

General bond

The Impact Team also approved the investment in general bonds for CIMB. This approval by the Impact Team serves as a testament to the bank's sustainable and impactful business model for the Malaysian and Southeast Asian populations. CIMB places a strong emphasis on financial inclusion and has demonstrated its commitment to fostering economic empowerment by providing loans to micro businesses, entrepreneurs and individuals.

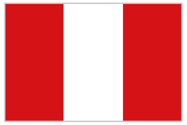
By investing in CIMB's general bonds, we are recognizing the bank's dedication to supporting underserved segments of society with lending products designed to empower low-income communities, microentrepreneurs and SMEs. CIMB's core focus on financial inclusion has allowed them to make a significant impact on the lives of individuals and communities by providing much-needed access to capital for micro businesses and entrepreneurs. We believe that by supporting CIMB's business model with its general bonds, we can contribute to the advancement of financial inclusion and help create a more equitable and prosperous society.

- 25.7 million Consumer Banking Customers
- 100,000 individuals assisted by providing access to medical care, better education, and facilitating upskilling
- 358,000 Vulnerable customers with insurance and wealth-building products
- 7,800 youths trained under their financial literacy programmes
- USD 1.8 billion distributed for the financing of low-income individuals across ASEAN in 2023

The calculation of this investment's impact at the Fund level differs from use of proceeds bonds as there is no ring-fencing around the above KPIs. An allocation factor of the investment size in the bond divided by the bank's enterprise value including cash was applied. Therefore, although the impact KPIs are larger with general bonds, the impact claimed by the Fund is often smaller after the application of this factor.

Portfolio spotlights

Peru's sustainability bond[26]



Peru's Sustainable Bond Framework is an interesting showcase of the scale of impact available in listed debt markets combined with granular impact reporting and strong additionality, targeting selected underserved populations and regions. The country has already issued one social bond and two sustainability bonds following this framework. The impact and allocation reporting for Peru's sustainability bonds is strengthened by the external independent verification by Sustainalytics.

The Fund has been invested in one of Peru's sustainability bonds since 2021. The bond use is fully aligned with the Fund's impact objectives of advancing the SDGs, with the use of proceeds mostly dedicated to creating lasting social impact for vulnerable and poor individuals and communities in Peru. The government shows a clear focus on allocating resources to regions with the widest social gap.

The bond primarily focuses on eight SDGs: No Poverty, Good Health and Well-Being, Quality Education, Gender Equality, Clean Water and Sanitation, Reduction of Inequalities, Climate Action and Life on Land.

Through its sustainability bond, Peru targets underserved and vulnerable populations. This allows us as impact investors to maximise the positive impact generated by our investments. The definition and identification of vulnerable populations is conducted through the Household Targeting System, an intersectoral and intergovernmental system employed by the Government of Peru to identify vulnerable poor and extremely poor communities and prioritize public spending in alignment with the country´s social targets.

[26] All data presented in this section is taken from the Social Bond and Sustainable Bonds 2021. Allocation and Impact Report published by the Peruvian Ministry of Economy and Finance. For illustrative purposes only and not a recommendation to buy/sell.

Portfolio spotlights

600,000 women supported
One of the funded programs is focused on the prevention and eradication of violence against women and family members. It aims to promote specialized services to prevent violence and provide care and protection for victims. The program helped close to 600,000 women affected by violence.

240,000 children received comprehensive care
Another program provided comprehensive care to more than 240,000 children between 6 and 36 months living in poor and extremely poor areas. The program covers daycare services and attends to children's basic needs of health, nutrition, security, protection, affection, rest, play, learning, and skills development. It provides support to families with home visits, group socialization, and inter-learning sessions to promote the development and strengthening of their knowledge, skills, and practices of childcare and learning.

16 million students supported
The Qali Warma program served more than 16 million students from 256,389 public educational institutions at preschool, elementary and high school levels through food service, contributing to the improvement in learning, school attendance and eating habits. This program targets public educational institutions located in the indigenous villages of the Peruvian Amazonia.

The sustainability bond also funded two environmental projects which were closely tied to social impact.

21,480 hectares of irrigated agricultural area
Finally, the program of sustainable agriculture consists of 62 projects for the construction, improvement, and expansion of irrigation infrastructure. These projects aim to expand the agricultural area by 41,665 hectares under irrigation through the installation and/or improvement of efficient irrigation infrastructures. The bond impact report discloses that already more than half of the expected impact was achieved, with 21,480 hectares of cultivated area with an irrigation system funded. This will allow farmers to be more resilient to more intense climate events while delivering better yields for their production.

571,481 people with access to clean water
The first project aims to provide clean water and sanitation services. 39 individual water and sanitation projects provided 571,481 people with access to clean water and successfully funded the treatment of 9.2 million m3 of treated water.

Looking ahead

The impact bond market is still evolving with strong growth and the emergence of innovative instruments. This ongoing evolution offers promising opportunities for investors to address sustainability challenges and bridge the funding gap for the SDGs. These developments of the impact bond market have a significant impact on the investible universe for impact investors. With the growth and credibility of impact-focused debt markets, impact investing strategies have greater breadth and scalability, making them more competitive. These new developments instil confidence and positivity for the future of the Fund and impact investing in listed debt markets as a whole.

In 2024, our objectives are to continue to strengthen our impact investing tools and processes, leveraging our innovative Impact Team, technology and data including the use of AI, and best practices based on the external independent expert Impact Principles verification. The improvement of our tools will also take into account the changes and strengthening of regulatory requirements and the new developments in the impact bond market. Engagement will also be an important focus point of the year ahead. Actively engaging with issuers on disclosure, governance, climate targets and diversity topics among others will also contribute to improving sustainability and impact outcomes.

The focus of the Fund remains strongly anchored with financial inclusion as a robust tool for sustainable development in emerging markets. Nonetheless, we also see strong impact propositions with other impact themes linked with the SDGs such as access to essential services, affordable housing or climate change mitigation. The Fund and the BlueOrchard team are enthusiastic about these varied tangible impact opportunities and will continue to aim for the most impactful bonds to maximize the Fund’s positive and quantifiable impact.

Annex

Annex

Externally verified: BlueOrchard's Impact Management Framework is best in class

BlueOrchard achieves highest rating across all categories in third-party verification by BlueMark.

	Operating principles for Impact management	BlueOrchard (all asset classes)	Peer Group median[27]
Strategic intent	1. Define strategic impact objective(s), consistent with the investment strategy	ADVANCED	ADVANCED
	2. Manage strategic impact on a portfolio basis	ADVANCED	HIGH
Origination & structuring	3. Establish the Manager's contribution to the achievement of impact	ADVANCED	HIGH
	4. Assess the expected impact of each investment, based on a systematic approach	ADVANCED	HIGH
	5. Assess, address, monitor, and manage potential negative impacts of each investment	ADVANCED	ADVANCED
Portfolio management	6. Monitor the progress of each investment in achieving impact against expectations and respond appropriately	ADVANCED	MODERATE
Impact at exit	7. Conduct exits considering the effect on sustained impact	ADVANCED	MODERATE
	8. Review, document, and improve processes based on the achievement of impact and lessons learned	ADVANCED	MODERATE
Independent verification	**9. Publicly disclose alignment with the Impact Principles and provide regular independent verification of the alignment**		

[27]Median includes Impact only managers and allocators in Private Equity, Private Debt and Public Debt. Scoring hierarchy for external verification: Advanced: limited need for enhancement at present, High: a few opportunities for enhancement, Moderate: several opportunities for enhancement, Low: substantial enhancement required.
Note: Logos are the property of their respective entities. As of February 2024. Source: BlueOrchard, BlueMark.

Limitations to methodology and data

6.1% of the portfolio are use of proceeds bonds from primary issuances that took place in 2023. Such bonds do not yet have impact reporting until the first year of the bond being issued, reducing the amount of impact data available for this report.

Additionally, as a result of the continuous issuance of use of proceeds bonds throughout the year, the impact reporting and data used for this report and impact assessments generally cover the period of between late 2022 to end of 2023. While the Impact Team gathers and analyses these reports and data, they do not reflect the exact impact achieved during a specific annual calendar year, but rather the impact achieved over a year. This method serves as a good proxy for the calendar year impact, but it is important to note that it is a limitation of investing in use of proceeds bonds.

Abbreviations

bn = billion
m = million
MW = Megawatt
MWh = Megawatt hours
tCO2e = Tonnes of carbon dioxide equivalent
USD = US Dollar

PAIs table

As part of the EU Sustainable Finance Disclosure Regulation (SFDR), BlueOrchard is required to disclose the negative effect of investments on various sustainability factors, including environmental, social, and governance matters. Those so-called Principal Adverse Impact (PAI) indicators are listed in the table below. PAIs are assessed during the ESG assessment of all issuers: We review the company's disclosure practices and availability of data, as well as compare the disclosed information to industry benchmarks. Moreover, trends are assessed, e.g., whether a company's GHG emissions have been reduced over the previous years.

PAIs[28]	Result	Coverage
GHG Emissions Scope 1	2,411.63	52.75%
GHG Emissions Scope 2	1,077.21	52.75%
GHG Emissions Scope 3	28,935.74	49.14%
GHG Emissions Scope 1, 2, 3	32,410.73	49.14%
Carbon Footprint	111.57	48.41%
GHG Intensity of Investee Companies (Scope 1, 2, 3)	1,040.37	69.49%
Exposure to Companies Active in Fossil Fuel Sector	1%	73.50%
Share of non-renewable energy consumption and production	84%	51.05%
Activities negatively affecting biodiversity-sensitive areas	0%	73.50%
Emissions to water	0%	2.71%
Hazard Waste Ratio	0%	7.53%
Hazardous Waste Exposure	0%	7.53%
Violator of UN Global Compact Principles	0%	73.50%
Lack of Processes and Compliance Mechanisms to Monitor Compliance with UN Global Compact Principles	52%	72.99%
Unadjusted gender pay gap	7%	2.80%
Board Gender Diversity	29%	51.36%
GHG Intensity of Investee Countries	533.41	100.00%

[28]Data from MSCI ESG as of 31 December 2023.

Risk considerations

Counterparty risk	The fund may have contractual agreements with counterparties. If a counterparty is unable to fulfil their obligations, the sum that they owe to the fund may be lost in part or in whole.
Currency risk	If the fund's investments are denominated in currencies different to the fund's base currency, the fund may lose value as a result of movements in foreign exchange rates, otherwise known as currency rates. If the investor holds a share class in a different currency to the base currency of the fund, investors may be exposed to losses as a result of movements in currency rates.
Derivatives risk	Derivatives, which are financial instruments deriving their value from an underlying asset, may be used to manage the portfolio efficiently. A derivative may not perform as expected, may create losses greater than the cost of the derivative and may result in losses to the fund.
Emerging markets & frontier risk	Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets.
High yield bond risk	High yield bonds (normally lower rated or unrated) generally carry greater market, credit and liquidity risk meaning greater uncertainty of returns.
Interest rate risk	The fund may lose value as a direct result of interest rate changes.
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, meaning investors may not be able to have immediate access to their holdings.
Market risk	The value of investments can go up and down and an investor may not get back the amount initially invested.
Operational risk	Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the fund.
Performance risk	Investment objectives express an intended result but there is no guarantee that such a result will be achieved. Depending on market conditions and the macro economic environment, investment objectives may become more difficult to achieve.
Sustainability risk	The fund has the objective of sustainable investment. This means it may have limited exposure to some companies, industries or sectors and may forego certain investment opportunities, or dispose of certain holdings, that do not align with its sustainability criteria chosen by the investment manager. The fund may invest in companies that do not reflect the beliefs and values of any particular investor.

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Subscriptions for shares of the Company can only be made on the basis of its latest Key Information Document and prospectus, together with the latest audited annual report (and subsequent unaudited semi-annual report, if published), copies of which can be obtained, free of charge, from Schroder Investment Management (Europe) S.A.

The Company is a Luxembourg-based Société d'Investissement à Capital Variable (SICAV) with unlimited duration which is coordinated with regard to the European regulations and meets the criteria for Undertakings for Collective Investment in Transferable Securities (UCITS).

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For Belgium, these documents may be obtained in French and Dutch, free of charge from the following link: www.eifs.lu/schroders.

The total net asset value is published on the website of the Belgian Asset Managers Association (BEAMA) on www.beama.be. In addition, the tariff schedules are available from distributors in Belgium. The fee on the stock exchange transactions of 1.32 % (with a maximum of € 4,000 per transaction) is payable on the purchase or conversion of capitalisation shares if they are carried out by the intervention of a professional intermediary in Belgium. Dividends paid by the Company to natural persons who are Belgian tax residents are subject to a Belgian withholding tax at a rate of 30% if they are paid by the intervention of a financial intermediary established in Belgium (this information applies to all distribution shares). If the dividends are received by such natural persons without the intervention of a financial intermediary established in Belgium, they must indicate the amount of the dividends received in their tax return and will be taxed on that amount at a rate of 30%. In the event of the redemption or sale of shares of a sub-fund investing, directly or indirectly, either (i) more than 25% of its assets in receivables with regard to shares acquired by the investor before January 1, 2018, or (ii) more than 10% of its assets in receivables with regard to the shares acquired by the investor from 1 January 2018 (provided, in each of these two cases, that certain additional conditions are met), the interest component of this redemption or sale price is subject to a 30% tax in Belgium.

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For Spain, these documents may be obtained in Spanish, free of charge, from the following link: www.eifs.lu/schroders, the CNMV, the distributors and on www.schroders.es.

The Company is registered in the Administrative Register of Foreign Collective Investment Institutions marketed in Spain of the National Securities Market Commission (CNMV), with the number 135. Its depository is J.P. Morgan SE and its management company is Schroder Investment Management (Europe) S.A.. The Company is a UCITS registered in Luxembourg.

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The Fund has the objective of sustainable investment within the meaning of Article 9 of Regulation (EU) 2019/2088 on Sustainability-related Disclosures in the Financial Services Sector (the "SFDR"). For information on sustainability-related aspects of this fund please go to www.schroders.com

Any reference to regions/countries/sectors/stocks/securities is for illustrative purposes.

Past performance is not a guide to future performance and may not be repeated.

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