

# Schroder GAIA

## Paulson Merger Arbitrage

### A Accumulation Share Class

#### Fund Launch Date

25 June 2014

#### Total Fund Size (Million)

USD 93.2

#### Share Price End of Month (USD)

54.28

#### Fund Manager

John Paulson (Paulson)

## Investment Objective and Policy

The fund aims to provide capital growth.

The fund may take long and short positions in shares, bonds and related derivative instruments in companies worldwide that are involved in mergers and other corporate events. The fund is not constrained by company size or sector. The fund applies a broad definition of what constitutes merger arbitrage – the manager considers all types of merger and acquisition transactions and other types of events such as corporate reorganisations, bankruptcies and liquidation scenarios. For example, the fund will take a long position in a company involved in a merger and acquisition transaction capturing the discount between the offer price and the target company's share price. For deals that appear particularly weak the fund may take a short position in a company involved in the transaction. The fund also participates in potential takeovers by establishing long positions in companies that are strategically attractive in consolidating industries. The fund may invest in less liquid, low or unrated securities or defaulted debt instruments. Investments in distressed securities will not exceed 20% of the Net Asset Value of the Fund. The fund may also invest in other financial instruments (including convertible bonds and warrants) and hold cash on deposit. Derivatives may be used to achieve the investment objective and to reduce risk or manage the fund more efficiently. The fund may use leverage. Recommendation: Investors should seek independent advice and satisfy themselves that they have an understanding of the techniques employed by the manager.

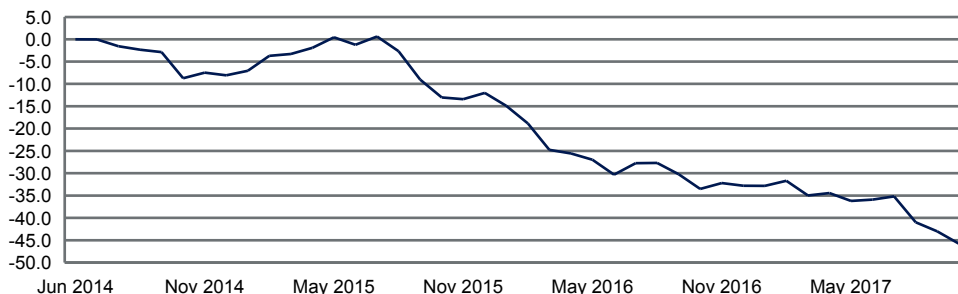
## Performance Analysis

| Performance (%) | 1 month | 3 months | YTD   | 1 year | 5 years | Since Launch | Average p.a. since launch |
|-----------------|---------|----------|-------|--------|---------|--------------|---------------------------|
| Fund            | -4.8    | -16.3    | -19.3 | -18.4  | ---     | -45.8        | -16.7                     |

| Monthly Returns (%) | Jan  | Feb  | Mar  | Apr  | May  | Jun  | Jul | Aug  | Sep  | Oct  | Nov  | Dec  | Year End |
|---------------------|------|------|------|------|------|------|-----|------|------|------|------|------|----------|
| 2015 Fund           | 1.1  | 3.6  | 0.4  | 1.4  | 2.4  | -1.7 | 1.9 | -3.3 | -6.5 | -4.4 | -0.4 | 1.6  | -4.3     |
| 2016 Fund           | -3.3 | -4.7 | -7.3 | -1.1 | -1.9 | -4.6 | 3.7 | 0.1  | -3.5 | -4.7 | 2.0  | -0.9 | -23.6    |
| 2017 Fund           | -0.0 | 1.7  | -4.8 | 0.8  | -2.7 | 0.5  | 1.1 | -9.0 | -3.4 | -4.8 | ---  | ---  | ---      |

| Discrete Yearly Performance (%) | Q3/2016 - Q3/2017 | Q3/2015 - Q3/2016 | Q3/2014 - Q3/2015 | Q3/2013 - Q3/2014 | Q3/2012 - Q3/2013 |
|---------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Fund                            | -18.3             | -23.3             | -6.3              | ---               | ---               |

#### Performance Since Launch (%)



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 back the amount originally invested.

All fund performance data are on a NAV to NAV basis, net income reinvested. Data is not available for the time periods with no % growth stated. In case a share class is created after the fund's launch date, a simulated past performance is used, based upon the performance of an existing share class within the fund, taking into account the difference in the ongoing charges and the portfolio transaction costs, and including the impact of any performance fees if applicable.

Source: Schroders

Prospective investors should consult with their independent financial advisor with respect to their specific investment objectives, financial situation or particular needs to determine the suitability of investment.



# Schroders

# Fund Manager Comment

Allergan was the largest detractor, down 10%, after a US judge invalidated patents on dry-eye medicine Restasis. Allergan had previously made a deal with the St Regis Mohawk Tribe to transfer intellectual property on Restasis to protect against patent challenges. Restasis represented roughly \$1.5 billion of Allergan's sales last year. Allergan is planning to appeal the decision and currently no generic drug maker has an approved generic ready to launch. We believe Allergan has some of the best assets in the pharmaceutical sector, and despite recent headwinds, the business continues to perform well. Q3 earnings beat estimates (\$4.15 EPS vs \$4.05) and management improved their full-year guidance EPS (\$16.15 to \$16.45, from \$16.05 to \$16.45).

Mallinckrodt continued to experience pressure, declining 14% after losing a court ruling over its patent of infant respiratory drug INOmax. In early November Mallinckrodt stock sold off on disappointing Q3 results. Whilst EPS beat analyst expectations, overall sales were down approximately 10% year-on-year and the market wasn't convinced by management's explanation. We will cover this in further detail next month.

Valeant was also down 20% in October, mainly driven by a lost court case against Teva which is bringing a generic version of Valeant's branded ulcerative colitis drug Uceris to market. On the positive side, Valeant's business continues to stabilise. The company has paid down an additional \$125 million of debt in October, exceeding its goal to pay down \$5 billion by February 2018. Valeant does not have any further debt obligations until 2020 and Q3 results announced in early November were also very positive, helping the stock make back lost ground (again we will cover this next month). Elsewhere, equity market hedges continued to detract from performance in October.

Mylan was the largest positive contributor to performance with the stock rallying over 17% after winning US regulatory approval to sell the first generic version of Teva's multiple sclerosis (MS) drug Copaxone. Copaxone is the most prescribed MS treatment for relapsing forms in the US with brand sales of \$700 million for 20mg and \$3.6 billion for 40mg last year. Mylan also received EU marketing rights for a 40mg Copaxone generic which represents 75% of the European market (they currently sell 20mg).

In the announced deals portfolio, Sky/21st Century Fox was a positive contributor as Sky announced earnings which were better than expected, lifting the stock up 4% over the month.

We continue to witness healthy M&A activity in both the US and globally across a variety of sectors, including industrials, healthcare, energy, technology, and consumer. Through September, global M&A volumes stood at \$2.5 trillion, slightly up year-on-year. While the uncertainty surrounding potential tax reform has reportedly kept some deals in the pipeline from being announced, near-term clarity regarding the timing and change in corporate tax rates should be a positive catalyst for M&A activity worldwide. After the tech industry, healthcare companies have the most cash sitting overseas so any reforms to repatriation would be a positive catalyst for the sector. We believe that many of our pharma names represent ripe takeover targets given their low valuations and will likely see approaches once the details on tax reform are known.

The fund's overall adjusted net exposure increased slightly from 27% to 30%. Long exposure to announced deals remained at 9% and event/merger arb net exposure was up to 30% at month end. The top 10 positions on the long side represent 64% of the portfolio, in-line with historic concentration levels.

## Portfolio Structure

These figures are on a delta-adjusted basis.

Cash adjustment is to account for the cash portion of deals (sourced directly from Paulson & Co.).

Source: Schroders

| Exposure Analysis (%)                                |              | Number of Positions             |             |              |            |
|--|--------------|---------------------------------|-------------|--------------|------------|
| Gross Equities Long                                  | 81.3         | Long                            | 29          |              |            |
| Gross Corporate Bonds Long                           | 9.5          | Short                           | 4           |              |            |
| Gross Equities Short                                 | -53.2        |                                 |             |              |            |
| <b>Fund Gross Exposure</b>                           | <b>143.9</b> | Strategy Exposure               |             |              |            |
| <b>Fund Net Exposure</b>                             | <b>37.6</b>  |                                 | <b>Long</b> | <b>Short</b> | <b>Net</b> |
| <b>Fund Gross Exposure (delta-adjusted)</b>          | <b>143.9</b> | <b>Announced Deals</b>          | 9.2         | -1.8         | 7.4        |
| <b>Fund Net Exposure (delta-adjusted)</b>            | <b>37.6</b>  | <b>Offers</b>                   | 0.0         | 0.0          | 0.0        |
| Cash Adjustment                                      | 7.2          | <b>Event / Merger Arbitrage</b> | 81.6        | -51.4        | 30.2       |
| <b>Fund Net Exposure (delta &amp; cash adjusted)</b> | <b>30.5</b>  | <b>Market Hedges</b>            | 0.0         | 0.0          | 0.0        |

# Holdings Analysis

Stock names have been suppressed. Investments in single sector market index instruments will be classified in the relevant sector, where relevant.

Source: Schroders

## Top 10 Long Holdings

| Sector                         | Country        | % NAV |
|--------------------------------|----------------|-------|
| 1. Health Care                 | United States  | 9.9   |
| 2. Health Care                 | United States  | 9.4   |
| 3. Health Care                 | United States  | 9.0   |
| 4. Health Care                 | United States  | 7.1   |
| 5. Financials                  | United States  | 4.7   |
| 6. Financials                  | United States  | 4.7   |
| 7. Information Technology      | United States  | 4.7   |
| 8. Consumer Discretionary      | United Kingdom | 4.7   |
| 9. Consumer Discretionary      | United States  | 4.6   |
| 10. Telecommunication services | United States  | 4.5   |

## Top 10 Short Holdings

| Sector                        | Country       | % NAV |
|-------------------------------|---------------|-------|
| 1. Market Index               | United States | -26.2 |
| 2. Health Care                | United States | -20.9 |
| 3. Information Technology     | China         | -4.2  |
| 4. Telecommunication services | United States | -1.8  |

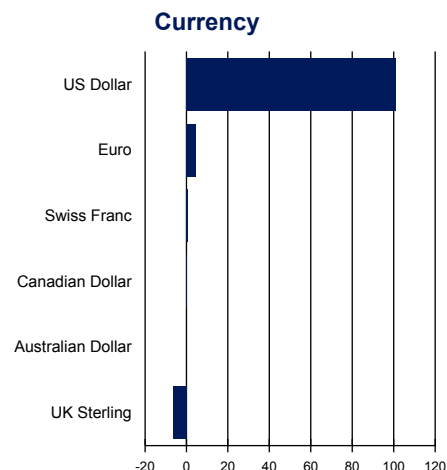
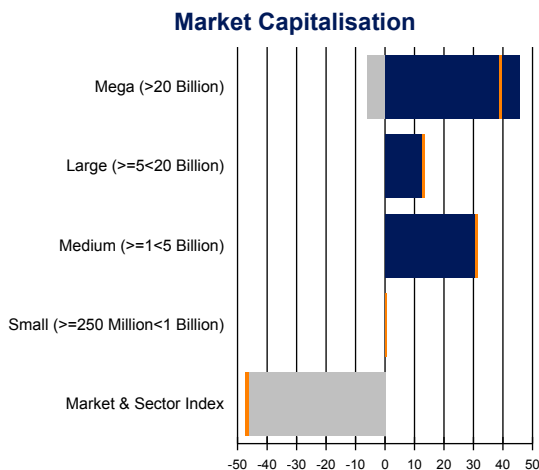
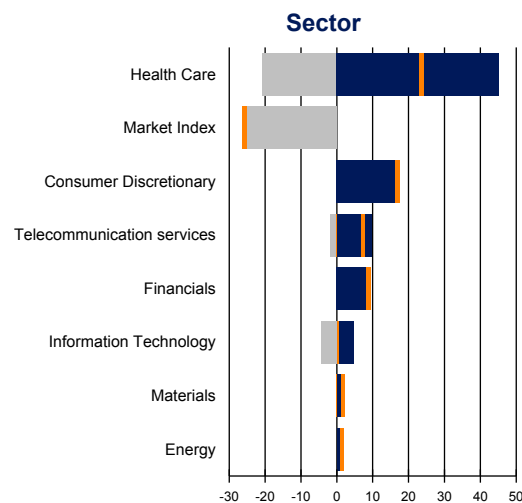
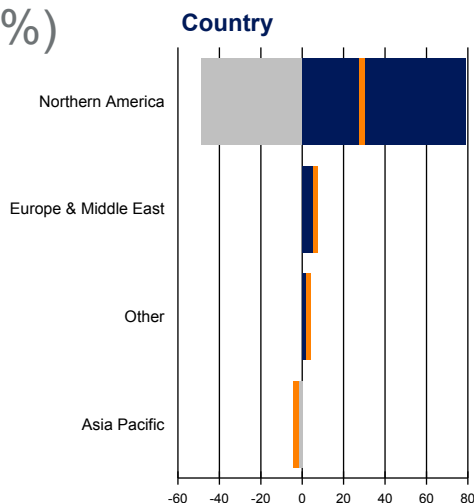
# Asset Allocation (%)

- Long
- Short
- | Net position

Country/Sector/Market Capitalisation: Analysis based on market exposure as a percentage of Total Fund Size excluding currency forward contracts.

Currency: Analysis based on market exposure as a percentage of Total Fund Size including currency forward contracts.

Source: Schroders



## Performance Contribution

Analysis expressed is month to date contribution on a gross of fees basis using a total return methodology. The impact of any currency movement at a position level is reflected within each position's return. Stock names have been suppressed.

Source: Schroders

| Summary         | (%)  |
|-----------------|------|
| Long Equity     | -4.2 |
| Short Equity    | -0.6 |
| Corporate Bonds | 0.0  |
| Index Options   | 0.0  |
| Currency        | 0.1  |
| Other           | 0.0  |

### Top 5

| Contributors   | Sector                     | (%) |
|----------------|----------------------------|-----|
| 1. Undisclosed | Healthcare                 | 1.6 |
| 2. Undisclosed | Information Technology     | 0.3 |
| 3. Undisclosed | Telecommunication Services | 0.2 |
| 4. Undisclosed | Healthcare                 | 0.1 |
| 5. Undisclosed | Consumer Discretionary     | 0.1 |

### Bottom 5

| Contributors   | Sector                 | (%)  |
|----------------|------------------------|------|
| 1. Undisclosed | Healthcare             | -1.3 |
| 2. Undisclosed | Healthcare             | -1.2 |
| 3. Undisclosed | Healthcare             | -0.7 |
| 4. Undisclosed | Consumer Discretionary | -0.6 |
| 5. Undisclosed | Other                  | -0.6 |

## ASC 820 (FAS 157)

Source: Schroders

| Summary                  | % NAV |
|--------------------------|-------|
| Level 1                  | 0.0   |
| Level 2                  | 6.9   |
| Level 3                  | 0.0   |
| Non-Trading Balance/Cash | 93.2  |

## Liquidity Breakdown

Historic data based on 20% participation rate in average traded volumes over last 20 days assuming 100% redemption. This data is a representation only and should not be viewed as an indication of ongoing/future liquidity. Percentages for liquidity assessment are subject to change.

Source: Schroders

| Summary         | % NAV |
|-----------------|-------|
| 1. 1 to 3 days  | 100.0 |
| 2. 4 to 5 days  | 0.0   |
| 3. 6 to 10 days | 0.0   |
| 4. >10 days     | 0.0   |

## Risk Considerations

ABS and MBS risk: Mortgage or asset-backed securities may not receive in full the amounts owed to them by underlying borrowers.

Counterparty risk: 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.

Counterparty risk / money market & deposit: A failure of a deposit institution or an issuer of a money market instrument could create losses.

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

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

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

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

Equity risk: Equity prices fluctuate daily, based on many factors including general, economic, industry or company news.

Event risk: The fund will take significant positions on companies involved in mergers, acquisitions, reorganizations and other corporate events, which may not turn out as expected and thus may cause significant losses.

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

Interest rate risk: A rise in interest rates generally causes bond prices to fall.

Leverage risk: 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.

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.

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

Short selling risk: The fund may take positions that seek to profit if the price of a security falls. A large rise in the price of the security may cause large losses.

Capital risk / distribution policy: the expenses of this share class are paid out of capital rather than out of investment income. Capital growth will be reduced and in periods of low growth capital erosion may occur.

## Information

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For your security, communications may be taped or monitored.

|   | <b>Accumulation</b>   |
|---|---|
| <b>SEDOL</b>                              | BLY1R93   |
| <b>Bloomberg</b>                          | SGPAUSD:LX  |
| <b>Reuters</b>                            | LU1062022659.LUF  |
| <b>ISIN</b>                               | LU1062022659  |
| <b>CEDEL</b>                              | 106202265   |
| <b>Fund Domicile</b>                      | Luxembourg  |
| <b>Fund Base Currency</b>                 | USD   |
| <b>Dealing Frequency</b>                  | Weekly on Wednesdays and Month End (3 days notice)                            |
| <b>Entry Charge</b>                       | 3.00 % of gross investment amount   |
| <b>Ongoing Charges (latest available)</b> | 2.42 %  |
| <b>Performance Fee</b>                    | 20% of the outperformance over BBA Libor 3 Month subject to a High Water Mark |
| <b>Distribution Fee</b>                   | 0.00 %  |
| <b>Settlement Timing</b>                  | T+3 days  |

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