

# Schroder GAIA Paulson Merger Arbitrage

## A Accumulation Share Class

### Fund Launch Date

25 June 2014

### Total Fund Size (Million)

USD 125.3

### Share Price End of Month (USD)

59.06

### 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.

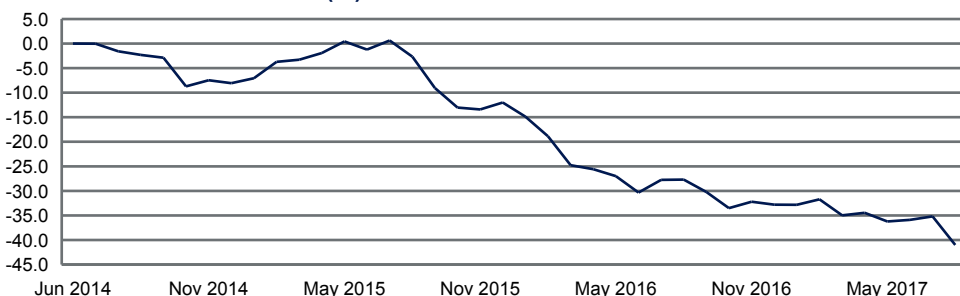
## Performance Analysis

Performance (%)	1 month	3 months	YTD	1 year	5 years	Since Launch	Average p.a. since launch
Fund	-9.0	-7.5	-12.2	-18.4	---	-41.0	-15.3

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	---	---	---	---	---

Discrete Yearly Performance (%)	Q2/2016 - Q2/2017	Q2/2015 - Q2/2016	Q2/2014 - Q2/2015	Q2/2013 - Q2/2014	Q2/2012 - Q2/2013
Fund	-8.0	-29.5	-1.2	---	---

### 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

August was a disappointing month for the portfolio driven by a decline in the pharma portfolio.

Teva reported Q2 earnings which missed estimates, cut its 2017 dividend and outlook and announced it risked breaching debt covenants, caused by a reduction in pricing in the US generics market. While we had significantly reduced our position in Teva (2.5% end of July), the news had a knock-on effect on other pharma companies in the portfolio with higher debt levels or exposure to US generics, causing the portfolio to decline. This included Mylan (down 19%). It missed Q2 earnings estimates and cut its 2018 target adjusted EPS to at least \$5.40 per share (still 20% year-on-year growth), down from \$6.00. This was as a result of the decision to push back all 2017 US drug launches to next year because of the uncertain US regulatory environment. Elsewhere, Valeant announced Q2 earnings which met estimates and maintained full-year guidance. Shire and Allergan both reported Q2 earnings which beat market expectations and raised full year guidance. But, frustratingly, these positive developments were overshadowed by the fear and uncertainty surrounding the sector, causing the stocks to also decline.

While Teva's business is strained, we don't believe it is at risk of defaulting on its debt. This month Teva sold its ParaGard intrauterine contraceptive device business for \$1.1bn (a deal done at 22X EBITDA), taking a large step towards raising \$2bn by year end. Teva also has big product launches in the pipeline which the market is not valuing and can more than offset declining revenue in other areas. It also named Kåre Schultz, formerly COO of Novo Nordisk, as new CEO, which was greeted favourably by the market. Mylan is growing, has a diversified portfolio of drugs and a strong generics pipeline but is trading at just \$31 a share, less than 6X expected 2018 EPS. Mylan's assets would be very enticing to a number of large cap pharma companies and we believe would attract a very healthy premium on today's irrational valuation.

We share the disappointment that our investors are experiencing but remain convinced our positions cannot trade at such a large discount to the market and large cap pharma indefinitely. Despite the recent pullback, there has been a more positive shift in sentiment towards healthcare in light of more certainty with regards to drug pricing and regulation. There is more than 100% upside in the specialty pharma portfolio if it were to close in-line with historical averages and we believe there will be further M&A in the sector which will help us re-coup losses faster. The companies we own on the whole continue to show that they are fundamentally sound, performing strongly, and have global and diversified businesses that are not reliant on egregious price increases.

While the specialty pharma portfolio continues to have a large impact on performance, we also want to keep investors abreast with other developments in the portfolio. We have been allocating capital to attractive announced deal spreads and sectors such as the cable and wireless sector where we expect near-term consolidation in the names we own such as DISH Network and T-Mobile. We see significant upside to our government-sponsored enterprise (GSE) positions and recent news regarding the unsealing of documents under executive privilege related to these positions was another positive development. Treasury Secretary Mnuchin this month once again reiterated that he wants to address the GSEs and to stop putting taxpayers at risk. As and when our pharma positions get taken out or realise full value, we will use the opportunity to continue reducing exposure to the healthcare sector and redeploy capital into other attractive spread situations and consolidating sectors including telecom, retail, media, industrial.

## 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 (%)	
Gross Equities Long	81.8
Gross Corporate Bonds Long	9.3
Gross Equities Short	-60.0
<b>Fund Gross Exposure</b>	<b>151.1</b>
<b>Fund Net Exposure</b>	<b>31.0</b>
<b>Fund Gross Exposure (delta-adjusted)</b>	<b>151.1</b>
<b>Fund Net Exposure (delta-adjusted)</b>	<b>31.0</b>
Cash Adjustment	7.0
<b>Fund Net Exposure (delta &amp; cash adjusted)</b>	<b>24.1</b>

Number of Positions			
Long			30
Short			4
Strategy Exposure			
	Long	Short	Net
<b>Announced Deals</b>	9.1	-1.3	7.8
<b>Offers</b>	0.0	0.0	0.0
<b>Event / Merger Arbitrage</b>	82.0	-58.8	23.2
<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	9.7
2. Health Care	United States	9.7
3. Health Care	United States	9.6
4. Health Care	United States	8.0
5. Consumer Discretionary	United States	4.8
6. Financials	United States	4.7
7. Information Technology	United States	4.7
8. Consumer Discretionary	United States	4.6
9. Financials	United States	4.6
10. Telecommunication services	United States	4.6

## Top 10 Short Holdings

Sector	Country	% NAV
1. Health Care	United States	-28.1
2. Market Index	United States	-26.4
3. Information Technology	China	-4.3
4. Telecommunication services	United States	-1.3

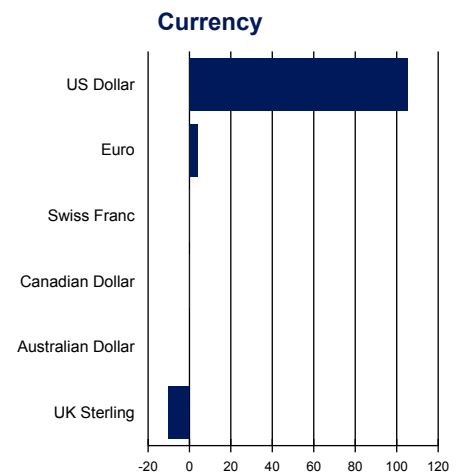
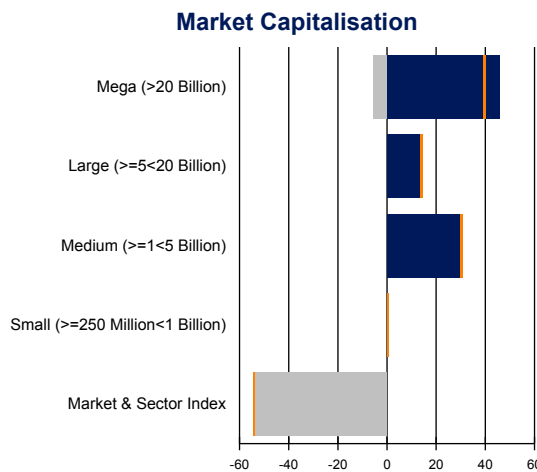
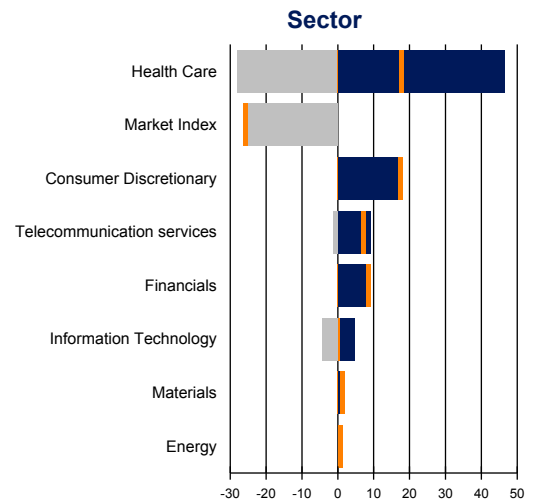
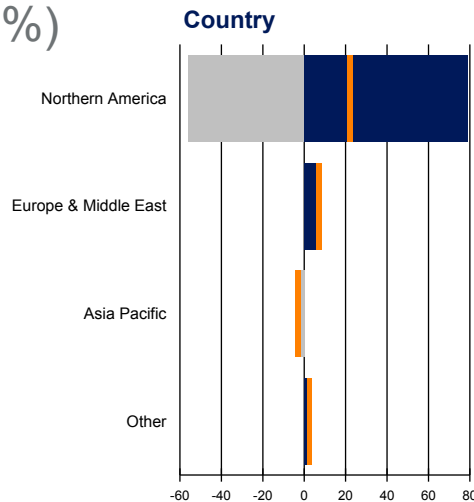
# Asset Allocation (%)

- 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		-8.1
Short Equity		-1.0
Corporate Bonds		0.0
Index Options		0.0
Currency		0.3
Other		0.0

### Top 5

Contributors	Sector	(%)
1. Undisclosed	Information Technology	0.4
2. Undisclosed	Information Technology	0.2
3. Undisclosed	Telecommunication Services	0.2
4. Undisclosed	Healthcare	0.2
5. Undisclosed	Telecommunication Services	0.1

### Bottom 5

Contributors	Sector	(%)
1. Undisclosed	Healthcare	-1.8
2. Undisclosed	Healthcare	-1.3
3. Undisclosed	Healthcare	-1.2
4. Undisclosed	Healthcare	-1.0
5. Undisclosed	Healthcare	-0.9

## ASC 820 (FAS 157)

Source: Schroders

Summary	% NAV
Level 1	0.0
Level 2	9.4
Level 3	0.0
Non-Trading Balance/Cash	90.7

## 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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	<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>	2.43 %
<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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