

Schroder GAIA Paulson Merger Arbitrage

A Accumulation Share Class

Fund Launch Date

25 June 2014

Total Fund Size (Million)

USD 63.5

Share Price End of Month (USD)

52.35

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.

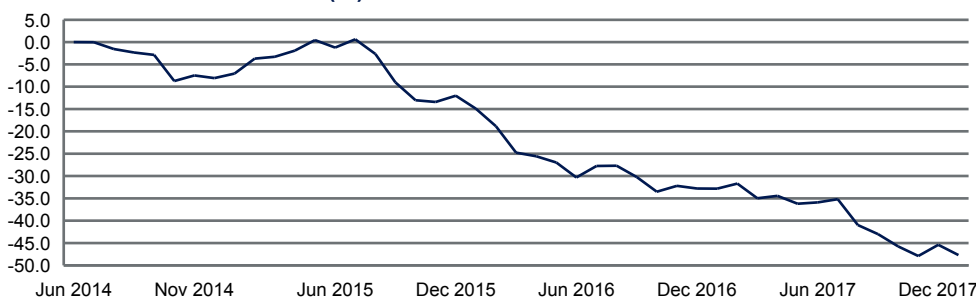
Performance Analysis

Performance (%)	1 month	3 months	YTD	1 year	5 years	Since Launch	Average p.a. since launch
Fund	-4.2	-3.6	-4.2	-22.1	---	-47.7	-16.5

Monthly Returns (%)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year End
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	-4.0	4.8	-18.7
2018 Fund	-4.2	---	---	---	---	---	---	---	---	---	---	---	---

Discrete Yearly Performance (%)	Q4/2016 - Q4/2017	Q4/2015 - Q4/2016	Q4/2014 - Q4/2015	Q4/2013 - Q4/2014	Q4/2012 - Q4/2013
Fund	-18.7	-23.6	-4.3	---	---

Performance Since Launch (%)



The return received may rise or fall as a result of currency fluctuations.

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.



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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.

Fund Manager Comment

The fund declined in January, driven by losses in the specialty pharma portfolio and general market and sector hedges.

Shire declined 15%, due to Roche's new hemophilia drug, Hemlibra, continuing to cast uncertainty on Shire's hemophilia franchise. We believe that the market is pricing in a worst-case scenario, with which we don't agree. In January, Sanofi acquired hemophilia drug company Bioverativ for \$11.6 billion, representing a 64% premium and 20X multiple. This clearly shows that Sanofi doesn't agree with Hemlibra's impact on the haemophilia market, and we concur. At the same time, Shire was trading at just 9X consensus 2018 earnings - a discount of over 50% to the Bioverativ acquisition and an almost 50% discount to its peers which trade at 17.5X. We believe Shire is fundamentally undervalued and remains a very attractive takeover target.

Whilst we significantly reduced our position in Mallinckrodt last year, owing to a change in fundamentals for the company and US generics market, the stock came under pressure in January. Articles suggested that management might not get the price it wants for its generic business, and may in fact consider selling it off in parts. This disappointed investors who were looking for the sale to help de-lever the balance sheet. Investors also remained on the side-lines ahead of Q4 results, 2018 guidance and the outlook for key product Achtar.

We have always maintained that acquisitions of our healthcare names would be the fastest way to normalise the mispricing, so we are pleased to see a very strong start to the year in terms of M&A activity. With over \$30bn of acquisitions, the sector has experienced its strongest start in more than a decade. Also, importantly, so far this year buyers of healthcare companies have agreed to pay an average premium of 81%, according to Dealogic, well above the average 42% paid in 2017.

The specialty pharma sector has faced tremendous challenges over the past couple of years, but we believe these issues are starting to subside. Companies are generally keeping price increases to less than 10%, specialty pharma companies continue to de-lever, and we are seeing signs of the pricing pressure on US generics bottoming. We continue to believe the mispricing is unsustainable and valuations should improve as the market eventually gives credit to company fundamentals or acquirers take advantage of the low valuations for strategic acquisitions.

In the announced deals portfolio, the spread of Sky/21st Century Fox tightened as the Competition and Markets Authority (CMA) came out with its provisional findings. While it had no objections over broadcasting standards, media plurality was stated as a public interest concern. 21st Century Fox has provided potential remedies, involving the creation of a legally separate entity and the creation of a fully independent editorial board for Sky News. Taking the currently ongoing Fox/Disney deal into consideration, the CMA suggested that those undertakings could fall away if Disney were to complete the acquisition of Sky. At the end of January the annualised spread was 7.3% with an estimated 1st August 2018 close. The Time Warner/AT&T spread also tightened producing gains for the fund, as Time Warner announced strong earnings with EPS up 28% year-on-year. Whilst litigation carries additional risks, the 30% annualised spread is very attractive, particularly given Time Warner's strong underlying business and other potential suiters for their assets, all of which provides downside protection.

The fund's overall adjusted net exposure increased from 28% to 40%. Long exposure to announced deals increased from 16% to 18% and event/merger arbitrage net exposure increased from 29% to 40%. The top 10 positions on the long side represent 65% of the portfolio, in-line with historic 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 (%)	
Gross Equities Long	94.4
Gross Equities Short	-40.6
Fund Gross Exposure	135.0
Fund Net Exposure	53.8
Fund Gross Exposure (delta-adjusted)	135.0
Fund Net Exposure (delta-adjusted)	53.8
Cash Adjustment	14.1
Fund Net Exposure (delta & cash adjusted)	39.7

Number of Positions	
Long	24
Short	4

Strategy Exposure			
	Long	Short	Net
Announced Deals	17.7	-3.7	14.0
Offers	0.0	0.0	0.0
Event / Merger Arbitrage	76.8	-36.9	39.9
Market Hedges	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	9.2
2. Health Care	United States	9.2
3. Health Care	United States	8.5
4. Consumer Discretionary	United States	8.2
5. Financials	United States	5.2
6. Financials	United States	5.1
7. Consumer Discretionary	United Kingdom	4.9
8. Telecommunication services	Brazil	4.8
9. Telecommunication services	United States	4.7
10. Information Technology	United States	4.7

Top 10 Short Holdings

Sector	Country	% NAV
1. Market Index	United States	-21.3
2. Health Care	United States	-12.0
3. Telecommunication services	United States	-3.7
4. Information Technology	China	-3.6

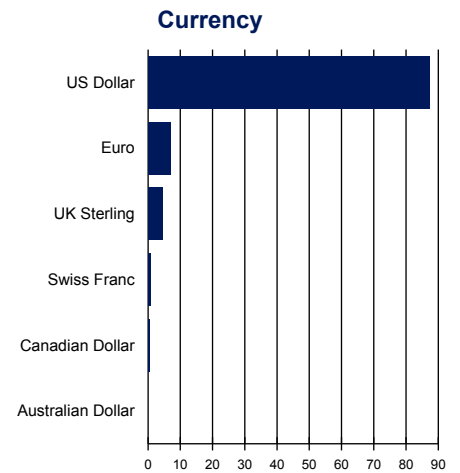
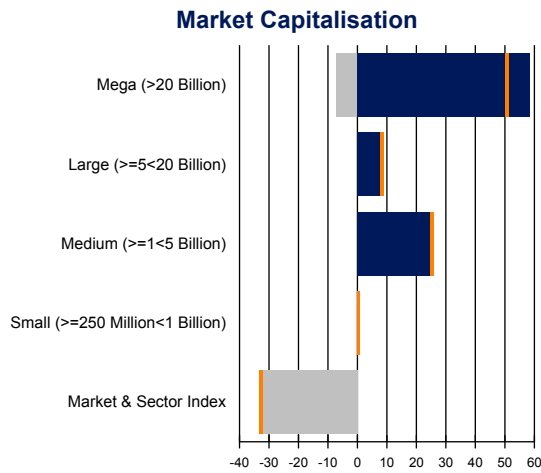
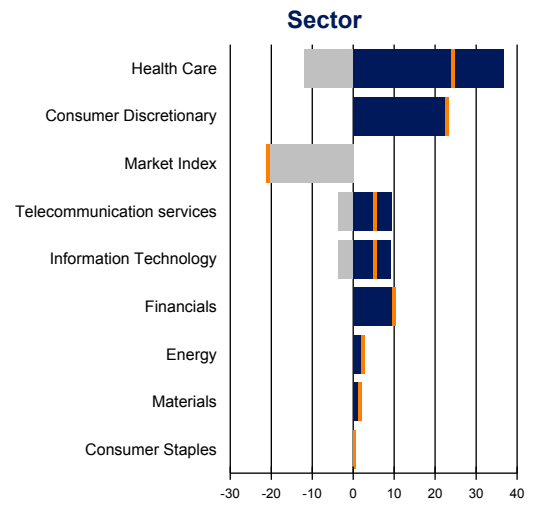
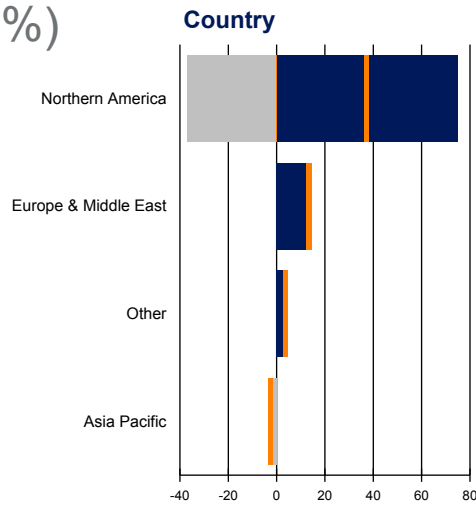
Asset Allocation (%)

■ 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	-0.0
Short Equity	-2.9
Corporate Bonds	0.0
Index Options	0.0
Currency	-0.4
Other	0.0

Top 5

Contributors	Sector	(%)
1. Undisclosed	Healthcare	0.7
2. Undisclosed	Information Technology	0.6
3. Undisclosed	Consumer Discretionary	0.5
4. Undisclosed	Telecommunication Services	0.4
5. Undisclosed	Consumer Discretionary	0.3

Bottom 5

Contributors	Sector	(%)
1. Undisclosed	Other	-1.3
2. Undisclosed	Healthcare	-1.0
3. Undisclosed	Information Technology	-0.7
4. Undisclosed	Healthcare	-0.5
5. Undisclosed	Healthcare	-0.5

ASC 820 (FAS 157)

Source: Schroders

Summary	% NAV
Level 1	0.0
Level 2	13.9
Level 3	0.0
Non-Trading Balance/Cash	86.1

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

Information

Schroder Investment Management (Luxembourg) S.A.
5, rue Höhenhof
1736 Senningerberg
Luxembourg

Tel.: (352) 341 342 212
Fax: (352) 341 342 342

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	Accumulation
SEDOL	BLY1R93
Bloomberg	SGPAUSD:LX
Reuters	LU1062022659.LUF
ISIN	LU1062022659
CEDEL	106202265
Fund Domicile	Luxembourg
Fund Base Currency	USD
Dealing Frequency	Weekly on Wednesdays and Month End (3 days notice)
Entry Charge	3.00 % of gross investment amount
Ongoing Charges (latest available)	2.43 %
Performance Fee	20% of the outperformance over BBA Libor 3 Month subject to a High Water Mark
Distribution Fee	0.00 %
Settlement Timing	T+3 days

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