Schroders

Marketing material for professional investors and advisers only

# Schroder GAIA Paulson Merger Arbitrage

## Quarterly Fund Update

Fourth Quarter 2017

## Portfolio characteristics

| | |
|---|---|
| **Fund manager** | John Paulson (Paulson & Co.) |
| **Managed fund since** | 25 June 2014 |
| **Fund launch date** | 25 June 2014 |
| **Fund size (USD)** | 67 million |
| **Ongoing charge*** | 1.68% |
| **Performance fee** | Subject to the "high water mark" principle, 20.00% of the share class outperformance in excess of the BBA Libor USD 3 Month Act 360. See the prospectus for more details. In the fund's last financial year the performance fee was 0.00% of the fund. |

| Number of corporate issuers | |
|---|---|
| **Long** | 23 |
| **Short** | 4 |

## Portfolio structure

| Gross/net exposure (%)** | |
|---|---|
| **Long Equities** | 78.8 % |
| **Short Equities** | -46.7% |
| **Long Corporate Bonds** | 9.4% |
| **Gross exposure** | 134.9% |
| **Net exposure** | 41.6% |
| **Options (delta-adjusted)** | - |
| **Gross Exposure (delta-adjusted)** | 134.9% |
| **Net exposure (delta-adjusted)** | 41.6% |
| **Net exposure (delta & cash adjusted)** | 14.6% |

Source: Schroders, as at 31 December 2017. Fees are for C accumulation USD shares. *The ongoing charges figure is based on the last year's expenses for the year ending December 2017 and may vary from year to year. The fund's annual report for each financial year will include detail on the exact charges made. **Source: Schroders as at 31 December 2017. Figures are on a delta-adjusted basis. Cash adjustment applies a 13.3% adjustment to the net exposure that may include the cash portion of deals, fixed income and defaulted instruments.

## Discrete monthly and yearly returns since inception (%)

### C accumulation shares (USD)

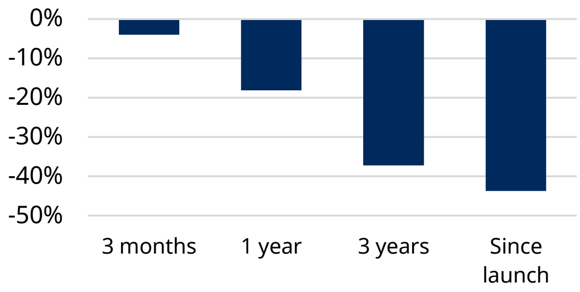
| | Annual | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2017** | -18.1 | 0.0 | 1.7 | -4.7 | 0.9 | -2.6 | 0.6 | 1.2 | -8.9 | -3.4 | -4.8 | -3.9 | 4.9 |
| **2016** | -23.1 | -3.2 | -4.6 | -7.2 | -1.0 | -1.8 | -4.5 | 3.7 | 0.2 | -3.5 | -4.7 | 2.0 | -0.8 |
| **2015** | -3.4 | 1.2 | 3.7 | 0.5 | 1.7 | 2.7 | -1.7 | 2.0 | -3.4 | -6.5 | -4.3 | -0.4 | 1.7 |
| **2014** | -7.4 | - | - | - | - | - | -0.0 | -1.5 | -0.5 | -0.4 | -6.0 | 1.4 | -0.6 |

Source: Schroders as at 31 December 2017. NAV to NAV, net of fees. Fund launched: 25 June 2014.

Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested.

## Cumulative returns to 31 December 2017 (%)

**C accumulation shares (USD)**




| | 3 months | 1 year | 3 years | Since launch |
|---|---|---|---|---|
| Schroder GAIA Paulson Merger Arbitrage | -4.0% | -18.1% | -39.2% | -43.7% |

Source: Schroders as at 31 Dec 2017. NAV to NAV, net of fees. Fund launch date: 25 June 2014.

| | Q4 2016 to Q4 2017 | Q4 2015 to Q4 2016 | Q4 2014 to Q4 2015 | Q4 2013 to Q4 2014 | Q4 2012 to Q4 2013 |
|---|---|---|---|---|---|
| Schroder GAIA Paulson Merger Arbitrage | -18.1% | -23.1% | -3.4% | - | - |

Source: Schroders as at 31 December 2018. All fund performance data is for the C accumulation USD share class, on a NAV to NAV basis, net income reinvested.

Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested.

## Risk Factors

The capital is not guaranteed. The fund is suitable for investors with a longer term investment horizon and who are more concerned with long term returns than short-term losses. The investor has a risk tolerance high enough to absorb potential losses associated with the uncertain outcome of merger and acquisition transactions and corporate events. The fund will take significant positions in companies involved in merger and acquisition transactions and other corporate events, the outcome of which are uncertain and may in certain instances adversely impact the performance of the fund. Investments in companies that are involved in mergers or other corporate events can be difficult to sell quickly, which may affect the value of the fund and, in extreme market conditions, its ability to meet redemption requests upon demand. Non-investment grade securities will generally pay higher yields than more highly rated securities but will be subject to greater market, credit and default risk. A security issuer may not be able to meet its obligations to make timely payments of interest and principal. This will affect the credit rating of those securities. Investment in bonds and other debt instruments including related derivatives is subject to interest rate risk. The value of the fund may go down if interest rate rise and vice versa. Investments in money market instruments and deposits with financial institutions may be subject to price fluctuation or default by the issuer. Some of the amounts deposited may not be returned to the fund. Investments denominated in a currency other than that of the share-class may not be hedged. The market movements between those currencies will impact the share-class. The fund may hold large positions in a particular investment and if market declines or the issuer defaults, then the fund will be adversely affected. The fund enters into financial derivative transactions. If the counterparty were to default, the unrealised profit on the transaction and the market exposure may be lost. The fund may be leveraged through the use of financial derivatives to achieve a risk target consistent with its risk profile. Long and short exposure gained through equity and bond total return swaps may increase the exposure to equity and credit related risks. The use of financial derivative instruments for investment purposes may increase the share price volatility, which may result in higher losses for the investor.

## Performance

The primary reason for the annual drawdown was losses in our Event/Merger Arb category, including many of our specialty pharma positions, as well as negative performance on our healthcare and general market hedges. The fund captured gains overall in the Announced Deal category throughout the year. The strong performance in December was driven by positive developments in a number of our core holdings. We believe many of the positions that are responsible for the current drawdown continue to trade at considerable discounts. If multiples move towards normalisation and the valuation discounts narrow, we could capture meaningful upside in these positions.

## Merger activity

Healthy levels of global announced M&A persisted throughout 2017. With over $3.7tn of global M&A volume, 2017 was one of the best years since the financial crisis. Momentum increased markedly in November and December as economic uncertainty decreased and CEO and Board confidence expanded. Activity grew in the real estate, healthcare, and consumer sectors, though industrials and technology remain the largest industries.

We believe pent-up corporate demand for strategic assets remains and that US corporate tax reform will likely be a positive catalyst for M&A activity worldwide as companies supplement growth through mergers and acquisitions. Acquirers continue to be rewarded for pursuing transactions, with 2017 being the seventh year out of the last eight in which acquirer stocks on average have risen after a deal announcement. Also notable is that M&A EBITDA multiples are above their 11-year average, with 2017 exceeding the historical highpoint of 2007.

## Merger spreads

Average spreads on announced mergers, which are typically tied to the risk free rate, remain modest. We remain disciplined when allocating to announced M&A. This area of the portfolio is concentrated on deals with wider annualised spreads where we believe the risk is mispriced, as well as deals with strong potential for topping bids or those with structural or other complexities. There are two current deals that we believe are attractive investment opportunities for the funds. Time Warner's merger with AT&T and Sky PLC's merger with 21st Century Fox represent robust annualised spreads in deals where we believe the downside is relatively modest.

## Performance drivers

The largest detractors to the fund's performance in 2017 were our general market and healthcare hedges along with our portfolio of specialty pharma accretive acquirers, which included investments in Mallinckrodt, Teva, Allergan, Endo and Shire among others.

Unfortunately, losses concentrated in these areas eclipsed positive performance more broadly achieved elsewhere in the portfolio. While our specialty pharma portfolio was down overall, Valeant and Mylan began to recover in Q4 and were our top two contributors this year. Other gains were achieved in pre-announced situations such as Akorn and TIM Participacoes, announced merger spreads including Syngenta and SKY Plc, announced offers including Actelion, and in other related events including Altaba and our holdings in the Government Sponsored Enterprises (GSEs), among others.

## Specialty pharma

Over the past two and a half years, the sector has been under tremendous pressure. It began with political rhetoric regarding drug pricing which initiated a broad sell-off that intensified amidst ongoing concerns across the industry. These concerns included questionable distribution practices at Valeant, high debt levels, and business deterioration caused by conditions in the US generics market.

In the first half of the year, our specialty pharma portfolio saw signs of potential stabilisation as the market began to give credit to the underlying company fundamentals, and some stocks began to rebound. However, following Teva's negative Q2 earnings report, fear and uncertainty surrounding the sector resurfaced. Despite the drawdown, we continue to view our current holdings as significantly undervalued and with the potential to further benefit from ongoing event catalysts. Towards the end of Q4, certain names in our portfolio began to recover from their lows. Valeant, the best performer in November, benefited from a strong Q2 earnings report which met estimates and maintained full year guidance. Further execution of its turnaround plan, including paying down debt and refinancing that allowed the company to extend maturities to 2020 and beyond, helped Valeant recover losses from earlier in the year when the stock had bottomed. Mylan also rallied at year-end due to the recent regulatory approval on one of its most highly anticipated generic drugs. Others such as Shire and Allergan, which have been delivering strong earnings results, have yet to respond in terms of their stock price and declined on the year. While there has been significant volatility in our positions, the strong performance of both Mylan and Valeant in December is evidence of how quickly these stocks can rebound if the market reacts positively as they hit certain milestones and deliver strong growth and performance.

On average, over the last 10 years until the correction in August 2015, specialty pharma has traded at a discount of 3% to large pharma. The discount today is 58%, with many companies trading at mid-single digit P/E multiples.

While the specialty pharma sector has faced challenges over the past couple of years, we believe these issues are being addressed across the industry. Companies are generally keeping price increases to <10%, specialty pharma companies continue to de-lever, and we are seeing signs of the pricing pressure on U.S. generics bottoming. Furthermore, the lines between "specialty" and "large pharma" are now more blurred than ever. Companies such as Allergan and Shire have enterprise values close to that of "large pharmas," and are spending significantly on innovative R&D focused on new biotech and other breakthrough drugs.

We believe this mispricing is unsustainable. Valuations should improve as the market eventually gives credit to company fundamentals or as acquirers take advantage of the low valuations for strategic acquisition at attractive prices. If the discount to large pharma were to close in-line with the historical average, we could see over 140% upside in these stocks.

The particular companies in our portfolio are cheap compared to peers and large-cap pharma. Actelion, was acquired by large-cap pharma company Johnson & Johnson in 2017. The pre-takeover valuation was 20x and J&J paid 34X to acquire it. Mallinckrodt, Endo, Valeant and Mylan have depressed P/Es by comparison. All are trading well below the average pharma sector multiple of approximately 17.5x and significantly below the multiple that JNJ recently paid for Actelion. We believe the companies held in our specialty pharma portfolio have been oversold, and given their steep discounts could represent attractive takeover targets.

### Akorn: Preannounced transaction

Akorn was the fourth largest contributor to returns in 2017. Our expectations were proven correct in April when Fresenius of Germany acquired Akorn, a US-based generics manufacturer for $34 per share, or $4.9 billion. The acquisition multiple of 12.9x forward EBITDA was in line with previous deals in the generic space and represented a 55% premium to Akorn's stock price at the beginning of the year. The transaction is immediately accretive to Fresenius, whose shares rose on the news. We were Akorn's third largest shareholder with 8.7 million shares, representing 7% of the company, before exiting the position in April.

### Mylan

Mylan stock was up approximately 11% in 2017 and has continued to rise in 2018. However, Mylan still trades at only 9.7x earnings-- one of the lowest multiples in the pharma sector-- even though it has addressed various issues of concern, it has one of the strongest drug pipelines, and is one of the fastest growing companies in the sector. If we use the price/ multiple paid for Akorn to model the potential premium that could be paid in a takeover scenario for Mylan, a similar premium would result in 60% upside from the year-end price.

Mylan's generic Copaxone continues to gain market share, the company received FDA approval for a generic Estrace on December 29$^{th}$, and Ogivri (a biosimilar to Roche's cancer drug Herceptin) won approval on

December 1st. All of which is helping investors gain confidence in Mylan's generic pipeline and ability to execute. Management is also taking advantage of the depressed stock valuation, completing its previously-announced $1bn buy back this month.  Notwithstanding the potential for M&A to serve as a catalyst to immediately drive the stock price up, we expect that over time the share price should appreciate back to its normal valuation range.

### Actelion

Occasionally, we participate in announced offer situations when we are confident that the probability of an announced transaction is good and the upside significant, especially when attractive assets might lead to a bidding war.

We initiated a position in the Swiss biopharmaceutical company Actelion after both Johnson & Johnson ("J&J") and Actelion issued press releases acknowledging preliminary discussions regarding a potential transaction. Subsequently, press rumours circulated of potential competing interest from Sanofi. In late December 2016, Actelion entered into exclusive negotiations with J&J. On January 26, 2017, Johnson & Johnson agreed to acquire Actelion for $280 plus 1 share in a spin off R&D company, at a deal price approximately 59% higher than our average cost, excluding the value of the R&D company. The tender offer closed at the end of April 2017, and after receiving EU approval on June 9th, Johnson & Johnson announced completion of its acquisition of Actelion Pharmaceuticals on June 16th.

In 2017, the shares appreciated from CHF214 to CHF280 and we earned a ~CHF66 spread (~31%).

### Consolidation in the cable and telecom sector

The fund is positioned to benefit from M&A growth in the now mature wireless/telecom industry, where we believe companies will use acquisition as a tool to increase current market share (horizontal expansion), diversify (vertical expansion), and achieve better economies of scale/maximise synergies.

In the US, there are four major wireless operators: Verizon and AT&T, number one and two respectively with approximately 100 million subscribers each, and Sprint and T-Mobile, each with approximately 50 million subscribers. However, due to their scale advantages, Verizon and AT&T comprise 90% of the industry's cash flow.

We've been involved with T-Mobile as a takeover target for a long period. T-Mobile continues to perform well, growing users and taking market share from the other three major wireless players in the US. There are a number of potential parties that could be interested in T-Mobile including Sprint (again), Dish Network, Comcast, and Charter, amongst others.

DISH, which has a very attractive holding of spectrum, could also be interesting to a number of potential suiters including Verizon, AT&T, Comcast, or Amazon.

In general, we expect continued M&A activity in this space as we go through 2018.

### TIM Participacoes

We believe consolidation in the wireless/telecom sector is not limited to the U.S. We established a position in the Brazilian company TIM Participacoes as one of the firms that will participate in consolidation in 2018 / 2019. The business is performing well with YoY increases in revenues (5%), EBITDA (17%), and EPS (50%).

Ahead of anticipated merger-related events, the strong underlying business performance led to a +57% share price increase, resulting in gains for the fund. With solid fundamentals and accelerating top-line growth, we expect the company to benefit from an accretive acquisition or be acquired at a premium in the near to mid-term.

## Time Warner

Our position in Time Warner was a detractor in Q4 2017. However, we liked—and continue to like—the risk/reward of this investment.

Paulson & Co. became involved with AT&T's $85bn acquisition of Time Warner at the deal's announcement in October 2016. On November 20, 2017, the US Department of Justice (DoJ) sued to block AT&T from acquiring Time Warner and the stock retreated to slightly higher than where the stock traded immediately after the deal was announced. The regulatory issues, despite causing volatility and spread widening, create an opportunity for the funds to benefit from a wide spread in a situation that we believe has limited downside. We believe AT&T will likely prevail allowing Paulson to capture the deal's $15.45 spread.

No vertical merger has been successfully blocked by the DoJ in more than 40 years, and the burden of proof rests squarely on the DoJ to demonstrate that "the proposed merger would lessen competition substantially." Although the outcome of litigation is never perfectly predictable, we feel that DC District Court Judge Richard Leon, who approved the consent decree in the 2011 Comcast-NBCUniversal merger is a favourable judge for hearing the AT&T/Time Warner case. We expect a decision from Judge Leon in the second quarter. If our thesis is correct and AT&T prevails in court, Paulson will achieve a 16.9% net return when the deal spread closes to AT&T's offer price of $107.50 per share.

We believe Time Warner Entertainment's downside, absent the AT&T deal, is very limited. The company is considered the best performing US media conglomerate, having grown EBITDA and EPS 12% and 17%, respectively, year-over-year in Q3 2017. There is tremendous value in Time Warner's best-in-class content. This includes Warner Brother's 7,000 film and 5,000 TV show library, HBO (which has hit shows like "Game of Thrones" and received 29 primetime Emmy Awards last year, the most of any network for the 16th consecutive year), and Turner (which includes TBS, TNT, CNN, and programming agreements with the NBA, Major League Baseball, and NCAA basketball). Time Warner is a unique, strategic, highly cash flow generative asset, so in the event that AT&T does not prevail in court, there is a decent probability that other bidders would likely emerge. Our $90 per share downside price does not reflect M&A speculation premium. As such, we believe our downside is limited in an adverse scenario and given our cost basis, the fund could capture gains on subsequent corporate actions.

## Syngenta

Syngenta was the third largest contributor to performance in 2017. In this situation, we relied on both our transactional expertise as well as our understanding of the regulatory issues to take advantage of a wide spread.

After Monsanto's failed hostile bid, ChemChina agreed to acquire Syngenta for $465 per share in cash in early 2016. The spread traded exceptionally wide due to concerns over regulatory approvals, primarily CFIUS, political risk and the lack of financial transparency around ChemChina (even though financing was not a condition to the transaction). After a prolonged period, in March 2017 China accepted the deal's regulatory filing and approved the transaction. In April, the takeover received clearances from both the EU and US authorities. The tender offer closed in May and we captured a ~20% absolute spread, earning the funds an annualised return in 2017 of 49% on the position.

## Sky Plc

In December 2016, 21st Century Fox made a bid to buy the 61% of Sky Plc that it doesn't already own. As of now, the deal has received all the regulatory approvals needed for the pre-conditional offer to be voted by the shareholders, with the exception of the approval from the Secretary of State, Karen Bradley. In September 2017, instead of approving the deal as recommended by Ofcom, the regulator for telecommunication and broadcasting in the UK, Karen Bradley decided to open an in-depth investigation and referred the review to the CMA, the Competition and Markets Authority. This was a surprise decision as the market was expecting Karen Bradley to follow Ofcom's recommendation.

Although the stock appreciated in Q4 providing gains for the fund, the spread remains wide due to potential political involvement and the headline risk of further news on scandals around Murdoch- owned companies.

We believe that the risk/reward are favourable as CMA would be highly likely follow Ofcom's recommendation and the deal would ultimately win approval. Also, recent speculations of deals around 21st Century Fox international operations (including Sky) with multiple potential acquirers demonstrate the attractiveness of Sky's assets, increasing our break price. At the end of December 2017, the spread was trading at a 17% annualised return to an expected close by June 30, 2018.

### Altaba

We established a position in Yahoo Inc! in Q1 2017 after the company announced that it would be selling its core business to Verizon for $4.48bn in cash. Post deal-closure in June 2017, the new company, Altaba, is comprised of Alibaba stock, Yahoo Japan stock and cash. The market value of these components is $94.80 per share, while the current stock price is $69.85, implying a 36% gross spread.

Management has indicated its commitment to returning cash to shareholders and monetizing the Alibaba and Yahoo Japan stakes in a tax efficient manner. We believe our downside is limited and there are multiple catalysts that could close this valuation gap. In the meantime, management continues to execute on a highly accretive $5bn stock repurchase program.

### GSE Preferred

The preferred shares of Fannie Mae and Freddie Mac each represent an approximate 6% position for the fund. The recent performance is shown below. Shares are currently trading at approximately 35% of par value, and while volatile, if the GSEs were restructured we believe the shares would be worth up to 70-100% of par, offering a potential option value of nearly 3:1 return:

The positions traded up substantially in Q4 as we continue to see Washington moving towards a settlement that should resolve the situation and benefit current shareholders. Our optimism was renewed in the quarter as we witnessed three key events that suggest progress towards a resolution:

1. The Trump Administration successfully moved tax legislation through Congress, which frees up the Treasury Department to focus on Fannie Mae and Freddie Mac. Secretary Mnuchin has publicly asserted several times that GSE reform is a priority for the Trump Administration and it would be addressed after tax reform.
2. Just before Christmas, the Treasury Department and the Federal Housing Finance Agency struck a deal to build capital buffers of $3 billion at each of the GSEs, a move that ends the Obama Administration's policy of sweeping the enterprises' earnings and starts building up capital to protect taxpayers against future bailout. This is a critical first step towards a resolution that we believe could benefit current shareholders.
3. Also in December, the Senate offices reported to be drafting the next housing finance reform bill publicly stated that current preferred shareholders of the GSEs could be made whole or close to it. While it is difficult to enact legislation in a crowded legislative calendar for 2018, the significance of this reversal is that there would likely be less opposition should the Treasury and Federal Housing Finance Agency take steps that benefit shareholders.

We believe restoring the GSEs is in the interest of US taxpayers and the housing market, and anticipate a positive outcome.

## Summary

The recent period of negative performance has been our most challenging in the firm's 23-year history and, we believe, uncharacteristic of our team and our fund.

We believe significant upside exists in our existing portfolio and feel confident about our ability to return the funds to profitability. As event catalysts play out and positions meet our goals, we continue to diversify the portfolio. We are always actively identifying and analysing potential opportunities, and we believe we are well-positioned to take advantage of new and better opportunities going forward.

## Performance attribution as at 31 December 2017*

| Top 5 contributors | Type | Country | Sector | Quarter (%) |
|---|---|---|---|---|
| Undisclosed | Long | US | Healthcare | 3.1 |
| Undisclosed | Long | US | Financials | 1.0 |
| Undisclosed | Long | US | Financials | 1.0 |
| Undisclosed | Long | UK | Consumer discretionary | 0.5 |
| Undisclosed | Long | Ireland | Healthcare | 0.3 |

Source: Schroders as at 31 December 2017.

| Bottom 5 contributors | Type | Country | Sector | Quarter (%) |
|---|---|---|---|---|
| Undisclosed | Long | UK | Healthcare | -3.2 |
| Undisclosed | Long | Ireland | Healthcare | -1.9 |
| Undisclosed | Short | US | Other | -1.5 |
| Undisclosed | Long | Netherlands | Consumer discretionary | -1.1 |
| Undisclosed | Long | US | Consumer discretionary | -0.5 |

Source: Schroders as at 31 December 2017. *Analysis expressed on a gross of fees basis using total return methodology. The impact of any currency movement at security level is reflected within each of the relevant strategies. All data is rounded to one decimal place; as such, any small discrepancies can be attributed to this.

| Region (ex. hedging) | Month (%) | Quarter (%) | Year to date (%) |
|---|---|---|---|
| Europe ex UK | 1.1 | -1.1 | -1.3 |
| United Kingdom | 0.4 | 0.4 | 0.6 |
| North America | 2.9 | -3.3 | -12.4 |
| Pacific ex Japan | 0.1 | 0.0 | -0.8 |
| Emerging Markets | 0.3 | 0.1 | -1.2 |
| Other (including FX Hedging, Options) | 0.1 | 0.0 | -0.7 |
| **Total** | **4.9** | **-3.9** | **-15.9** |

*Analysis expressed on a gross of fees basis using a total return methodology. The impact of any currency movement at security level is reflected within each of the relevant strategies. NB All data is rounded to one decimal place; as such, any small discrepancies can be attributed to this.

## Performance attribution as at 31 December 2017

| Sector | Month (%) | Quarter (%) | Year to date (%) |
|---|---|---|---|
| Consumer discretionary | 0.7 | -2.0 | -2.3 |
| Consumer staples | 0.0 | 0.0 | 0.1 |
| Energy | -0.2 | -0.2 | -1.3 |
| Financials | 0.0 | 0.0 | 0.0 |
| Healthcare | 0.0 | -5.1 | -8.8 |
| Industrials | 0.0 | 0.0 | 0.0 |
| Information technology | 0.2 | 0.3 | 1.3 |
| Materials | 0.0 | -0.1 | 0.5 |
| Telecommunication services | 0.2 | -0.1 | 1.1 |
| Utilities | 0.0 | 0.0 | 0.0 |
| Other (including FX Hedging, Options) | 4.0 | 3.3 | -6.5 |
| **Total** | **4.9** | **-3.9** | **-15.9** |

Source: Schroders as at 31 December 2017.

## Key positions as at 31 December 2017 (%)

### Top 10 long positions

| | Sector | Country | Weight (%) |
|---|---|---|---|
| 1 | Healthcare | United States | 9.8 % |
| 2 | Healthcare | United States | 9.5 % |
| 3 | Consumer discretionary | United States | 7.5 % |
| 4 | Healthcare | United States | 7.4 % |
| 5 | Financials | United States | 4.9 % |
| 6 | Consumer discretionary | United Kingdom | 4.7 % |
| 7 | Telecommunication services | United States | 4.6 % |
| 8 | Financials | United States | 4.5 % |
| 9 | Information technology | United States | 4.5 % |
| 10 | Consumer discretionary | United States | 4.4 % |

Source: Schroders as at 31 December 2017.

### Top short positions

| | Sector | Country | Weight (%) |
|---|---|---|---|
| 1 | Market index | United States | -23.0 % |
| 2 | Healthcare | United States | -15.9 % |
| 3 | Information technology | China | -4.1 % |
| 4 | Telecommunication services | United States | -3.7 % |

Source: Schroders as at 31 December 2017.

## Portfolio positioning as at 31 December 2017 (%)

| Size | Long (%) | Short (%) | Net (%) |
|---|---|---|---|
| Mega (> 20 billion) | 56.6 % | -7.8 % | 48.9 % |
| Large (between 5 and 20 billion) | 6.3 % | | 6.3 % |
| Medium (between 1 and 5 billion) | 24.7 % | | 24.7 % |
| Small (between 250 million and 1 billion) | 0.6 % | | 0.6 % |
| Market & sector Index | | -38.9 % | -38.9 % |
| **Total** | **88.2 %** | **-46.7 %** | **41.6 %** |

Source: Schroders as at 31 December 2017.

### Region allocation

| Region | Net Weight % |
|---|---|
| Northern America | 30.0 % |
| Europe & Middle East | 11.2 % |
| Asia Pacific | -4.1 % |
| Other | 4.4 % |
| **Total** | **41.6 %** |

### Strategy allocation

| Sector | Net Weight % |
|---|---|
| Announced Deals | 12.7% |
| Offers | - |
| Event / Merger Arbitrage | 28.8% |
| Market Hedges | - |
| **Total*** | **41.6%** |

Source: Schroders as at 31 December 2017.

### Sector allocation

| Sector | Net Weight % |
|---|---|
| Healthcare | 20.3 % |
| Consumer discretionary | 19.9 % |
| Financials | 9.4 % |
| Telecommunication services | 5.3 % |
| Information technology | 4.6 % |
| Energy | 2.5 % |
| Materials | 2.0 % |
| Consumer staples | 0.6 % |
| Market Index | -23.0 % |
| **Total** | **41.6 %** |

Source: Schroders as at 31 December 2017.