

# Schroders Global Value Equity Strategy Overview

## Summary

Global Value is an index unconstrained, diversified, value-based investment strategy designed to deliver higher long-run returns. We believe that investors who are prepared to take a long-term view and invest away from the crowd should be rewarded with gross returns of +3% above global indices such as the MSCI World Index\* over the full economic cycle.

\*The MSCI World Index (the benchmark) is an unmanaged portfolio of equity securities used as a point of comparison for the strategy. No strategy can guarantee that its performance will match the performance of its benchmark.

## Firm highlights

- Schroders manages more than \$291 billion in assets worldwide
- Asset management is our sole business
- Over 350 portfolio managers and analysts globally
- Dedicated to proprietary research – fundamental and quantitative
- Truly global reach: 33 offices in 26 countries

## Team highlights

- Over 12 years in managing global equity portfolios
- Team manages approximately \$22 billion in assets
- Investment philosophy is based upon combining fundamental data and well-researched behavioral insights
- Considerable emphasis is placed on portfolio construction and genuine diversification of risk

## Global Value features

- 1. Value outperforms in the long run:** Our analysis suggests that value investing ‘works’ in 36 out of 40 countries. Academic evidence dating back to the 1920s supports the idea that value is a powerful long-term investment strategy. Our approach to investing is designed to invest alongside this favorable long-run tailwind from value.
- 2. High return without concentrated stock risk:** Seeking higher returns can be associated with greater risk, as this is often achieved through a very concentrated stock portfolio. We reduce stock risk by building a highly diversified portfolio but with no less conviction.
- 3. Stock weights determined by fundamentals, not market cap:** In market cap weighted indices, the very largest, so called ‘mega cap’ stocks crowd out other investment opportunities as too much of the portfolio gets allocated to them by virtue of their size. In some respects, very large company size reflects past success or can be a naive extrapolation of future prospects. Over allocation to past success creates an inefficiency in the index, with momentum-like characteristics. Our approach is to weight stocks based upon their fundamentals and liquidity. This is more balanced and reduces the problem of the ‘mega-cap’ drag which is particularly acute for other value investors.
- 4. Bottom-up, index unconstrained investing is more efficient:** We maximize our investment opportunities by systematically analyzing over 15,000 global stocks every day. The more attractively-priced stocks we find in a particular region or sector, the greater the subsequent portfolio allocation. This unconstrained bottom-up approach to regional and sector allocations maximizes the potential return opportunity and avoids dead-money being allocated to expensive stocks to satisfy index constraints.

All data and statistics as of December 31, 2011.

Schroder Investment Management North America Inc.  
875 Third Avenue, 22nd floor, New York, NY 10022-6225  
(212) 641-3800 [www.schroders.com/us](http://www.schroders.com/us)



# Schroders

### How and why does value investing work?

Investors often question the reason for the continuing success of value investing given that it is such a well-known feature over time. While empirically proven, there is great debate about why it works. Our view is that value returns are a risk premium earned by strong-willed investors who are prepared to take a long-term view. This can sometimes mean investing in companies, industries or countries with less favorable short-term prospects. Financial difficulties, falling earnings, declining sales, bad debts, regulatory changes, rising input prices, new technology, bad management, bad weather and political uncertainty, to name just a few, can lead to excessively-depressed company valuations. We all know that equity markets are emotional beasts and these events are often extrapolated way too far, leading to opportunities for value investors who believe that short-term prospects are more than discounted in stocks' prices. On average, more of these stocks recover than do not and go on to earn significant profits for the long-term value investor.

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### Investment process

Value investing is a simple but powerful strategic approach to investing. However, capturing the potential returns in real portfolios is a complex process. We believe portfolio construction is crucial. In particular, our focus upon stock weighting, diversification and trading costs means that we are able to efficiently capture the long-term value premium.

Our investment process can be summarized in three stages:

#### Global Value Rank

We take as broad an investment universe as possible. After screening for liquidity, we end up with over 15,000 stocks of all sizes across more than 40 countries including both developed and emerging markets. This maximizes the investment opportunity. Each stock is assigned a 'Global Value Rank', determined by a systematic assessment including characteristics such as dividend forecast, cashflow, earnings, sales and assets. Our investment universe is the top third of the Global Value Rank.

#### Stock selection

There are a number of aspects to the stock selection process. The most significant are:

- **Market impact weighting** – maximizes both portfolio liquidity and investment breadth and so avoid the return drag associated with a less efficient index based cap-weighting approach which tends to be dominated by mega-cap stocks.
- **Probability of value being realized** – a model of each stock's fundamentals. Stocks with better fundamentals and a higher probability receive a higher weight, while we spread our risk around in stocks with more uncertainty by holding much smaller positions.

#### Portfolio construction

- **Bottom-up region and sector weightings** – we only invest where we find value. If we cannot find cheap stocks in a particular country we prefer to take the long-term view and hold a zero weighting. A good example is avoiding investing in the Japanese stock market bubble in the early 1990s.
- **Diversification** – we optimize the portfolio on a daily basis to search for the best value stocks, while also paying careful attention to portfolio diversification. Typically the portfolio holds well in excess of 500 stocks.
- **Trade execution** – we tailor trade execution to local market conditions to minimize the total cost of trading in all markets. Typically in more developed liquid markets, we primarily use direct market access and sophisticated computer algorithms which actively minimize the impact costs.

Investment process (continued...)

Key Features	
Return target	+3% p.a. (gross of fees) above global indices such as MSCI World Index
Tracking error	Not targeted, typically over 3-6% p.a.
Active share	Typically +70%
Beta/Volatility	Time varying depending on market conditions
Stock weights	Non cap weighted
Number of stocks	500+
Region/Sector	Bottom-up

Source: Schroders, as of December 31, 2011

Experienced global team

Quantitative Equity Products (QEP) is a well-established team of investment professionals based in London and Sydney led by Justin Abercrombie who was a founding member of the team in 1996. The team now manages approximately \$22 billion across a broad range of global equity products.

1996	Investment team established to research risk models and strategy
2000	Global and US Core Equities launched
2002	Assets reached USD 1 billion
2004	Global Value launched
2006	Japanese Core launched
2007	Global Quality and Blend launched
2011	Assets reached USD 22 billion

Source: Schroders, as of December 31, 2011

QEP Product Range

QEP Product Range*	
Global Value	Global Value is an index unconstrained, value-based investment strategy designed to deliver higher long run returns. A focus upon stock weighting, diversification and trading costs means we can capture the long term premium to value investing efficiently. Targets a gross return of +3% per annum above global indices such as MSCI World Index.
Global Quality	Global Quality invests in quality companies that offer stable growth, are profitable and are financially strong while avoiding the disappointment associated with glamour stocks. Targets a gross return of +3% per annum above global indices such as MSCI World Index.
Global Blend	A combination of Global Value and Global Quality to offer the best of both worlds. A 50/50 allocation would target 3% per annum above global indices in the medium term. The allocation can also be tailored to match specific investor time horizons, risk attitudes and return targets.
Global Value Extension	A highly flexible approach which can go up to 150% long of Value opportunities and up to 50% short Low Quality, this strategy has been designed to avoid some of the problems of the rigidly-defined 130/30 funds. In addition, we look to manage important collateral bets such as currency and beta exposure which are produced from the unconstrained long portfolio. Targets a gross return of +5% per annum above global indices such as MSCI World Index.
Core Equity	Global, enhanced indexation strategies targeting gross outperformance of 1% per annum that has the benefits of index-based investing in terms of risk and cost but provides the opportunity to achieve consistent outperformance.

\*Certain strategies are only available via separately managed accounts which carry higher minimums than pooled funds. Portfolios have, in certain years, underperformed against their respective indices in the past.

### Why Schroders for Global Value Equity?

- *Value style* – attractively priced companies with strong fundamentals outperform in the long run.
- *Embracing breadth* – exploiting opportunities from more than 15,000 stocks globally from both developed and emerging markets.
- *Stock weights are determined by fundamentals not market cap* – higher weights to stocks with better fundamental rather than a stock's size with the objective of reducing the performance drag from over allocating to mega cap stocks
- *Bottom-up, index unconstrained investing* – minimal sector, region or size constraints maximizes the potential return and minimizes dead money allocated to expensive stocks simply to satisfy inefficient index constraints.
- *Focus on risk management and portfolio construction* – a highly diversified portfolio minimizes stock specific risk whilst retaining a high degree of conviction.

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### Risk

All investments, domestic and foreign, involve risks including the risk of possible loss of principal. The market value of the portfolio may decline as a result of a number of factors, including adverse economic and market conditions, prospects of stocks in the portfolio, changing interest rates, and real or perceived adverse competitive industry conditions. Investing overseas involves special risks including among others, risks related to political or economic instability, foreign currency (such as exchange, valuation, and fluctuation) risk, market entry or exit restrictions, illiquidity and taxation. Emerging markets pose greater risks than investments in developed markets.

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#### Schroders plc

Schroders is a global asset management company with \$291 billion under management as of December 31, 2011. Our clients are major financial institutions including banks and insurance companies, public and private pension funds, endowments and foundations, high net worth individuals, financial intermediaries and retail investors. Our aim is to apply our specialist asset management skills in serving the needs of our clients worldwide and in delivering value to our shareholders. With one of the largest networks of offices of any dedicated asset management company and over 350 portfolio managers and analysts covering the world's investment markets, we offer our clients a comprehensive range of products and services.

Further information about Schroders can be found at [www.schroders.com/us](http://www.schroders.com/us)

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Past performance is not necessarily a guide to future performance. The value of investments can go down as well as up and is not guaranteed.

Diversification does not assure a profit or protect against loss in a declining market.

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