

# Schroder Global Small Cap Product Overview

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## Strategy overview

Schroders Global Small Cap product provides active management that seeks to identify the best investment opportunities in global equity markets.

We believe that successful investment in smaller companies requires a separate and strategic allocation and should be managed by a dedicated and focused team. We also believe that small companies can provide potentially superior returns over the long term and, as such, are excellent complements to mainstream, larger-cap investments.

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## Firm highlights

- Schroders manages over \$158 billion in total 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: 35 offices in 26 countries
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## Team highlights

- 25 specialist research and fund management professionals dedicated to small companies
  - Team draws on wider resources of a major global asset manager
  - Schroders has over 30 years experience investing in smaller companies worldwide
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## Key features

### **Superior growth prospects of small companies**

- Smaller companies often have higher prospects for growth relative to large companies, due to the fact they are in the early stages of their growth trajectory
- Small companies are generally under-researched and, as such, an information advantage can be gained from thorough fundamental research

### **Robust investment process**

- Regional portfolio managers are responsible for stock selection within their particular region and are closely integrated with their respective research teams
  - An experienced international portfolio manager works closely with the regional portfolio managers to ensure an optimal portfolio in terms of regional asset allocation and risk profile
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## Investment objective

We aim to outperform the S&P/Citigroup Extended Market World Index by 200-300 basis points per annum over three-year rolling cycles. We seek to add value primarily through stock selection and secondarily through regional allocation.

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All data and statistic as of December 31, 2008

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# Schroders

## Investment philosophy

Stock selection is at the core of our investment process, based on intensive in-house company analysis. We seek to identify companies offering superior and visible growth, but within a disciplined valuation framework. We also seek to add value through regional allocation.

We believe that investing in smaller companies with what we believe to be superior characteristics and that are undervalued in the market will deliver competitive investment returns. We seek to identify quality growth companies by devoting our in-house resources to identify the fundamental attractions of each company's business model, gauging the scope and visibility of growth, the risks to that growth, and the quality and focus of its management. In appraising valuations, we aim to look further out than the market (assessing investments based on a two- to three-year time frame) and apply a disciplined fair-value methodology.

## Investment process

Stock selection is at the core of our investment process and the bulk of our resource and effort is dedicated to it. This approach stems from our belief that identifying undervalued companies that exhibit what we believe to be superior characteristics of visible growth and sustainable returns is the key driver of excess returns. This view is strengthened by the fact that smaller companies remain generally under-researched and that we can gain an information advantage through rigorous research consistently applied within a philosophical framework that is long-term, fundamentally driven and research-based.

We focus on identifying high-quality companies offering above-average and relatively visible earnings growth (i.e. a business model that is not overly reliant on an economic or business cycle over which management have relatively little control). The generic factors on which we concentrate in our research are listed in the table below, encompassing both quantitative attributes (such as its growth prospects, market position and source of sustainable competitive advantage) and also qualitative assessment, most critically of company management. Companies that demonstrate strengths in these areas and whose shares are on reasonable valuations are considered for inclusion in the portfolios.

Quantitative attributes	Qualitative attributes
Sustainable Growth High real EPS growth Visibility of earnings – Strong product or service franchise – Strong market share – Beneficiary of structural change Limited financing risk	Management Assessment Interest in shareholder value Historic record of success Sound business practices Length of time with company Focused strategy

Source: Schroders

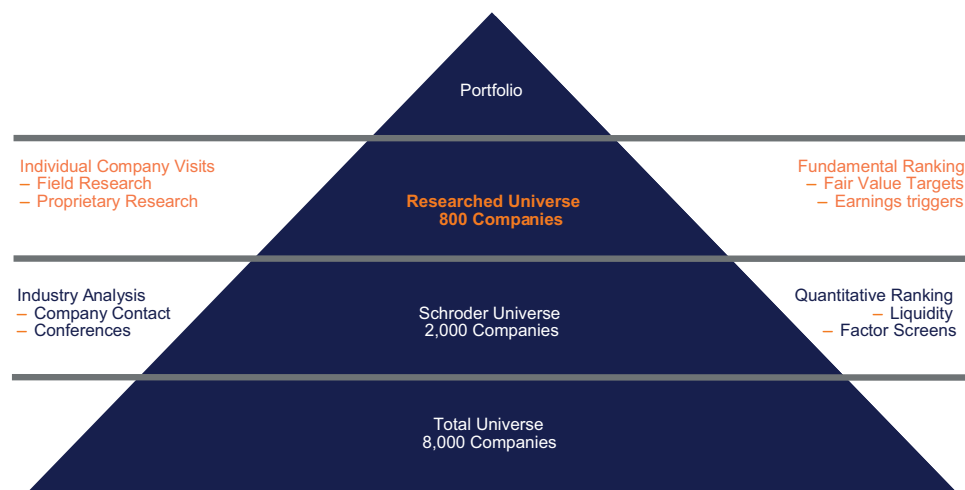
## Regional Allocation

The portfolio managers make their day-to-day stock decisions within a regional framework agreed by the weekly Global Small-cap Investment Committee chaired by lead fund manager Matthew Dobbs. The committee reviews an entire portfolio, monitoring the overall sector positioning and ensuring that the balance of risks and return is within expectations. The committee determines the distribution of a portfolio between regions, placing emphasis on regions with the most attractive prospects for smaller companies.

While incorporating input from the broader asset allocation resources of Schroders, the primary tools used to determine regional allocation are derived from our own small-company database and include relative valuations of small-caps across regions and versus their large-cap peers, use of our proprietary fair-value screens to indicate areas of attractively valued stocks, and also utilising the small-cap factor screens to rank the regions. Regional deviation is generally limited to +/- 7% from the benchmark.

### Portfolio Construction

The first stage of construction is reducing the small-cap universe to around 2,000 stocks that merit more detailed research. Screening tools are used to define this universe, looking for adequate liquidity and attractive attributes. We use proprietary screens to rank this universe based on three equally weighted criteria: growth (earnings revisions and momentum), quality (ROE and change in ROE) and valuations (typically earnings yields). This universe is further refined to a closely researched list of approximately 800 companies from which final portfolios are constructed. We endeavour to know as much as possible about each of the companies under consideration and, as such, our Research and Investment teams hold over 2,000 company meetings each year. The results of this investment process are moderately diversified portfolios, each comprising stocks in which we have the highest convictions.



Source: Schroders

### Risk management

Stock-specific risk is, to a large degree, addressed as an integral part of our investment process, namely the rigorous research and due diligence process to which investments are subjected before inclusion in our portfolios. Even with this intensive research commitment, smaller companies are individually risky, given certain attributes such as reliance upon one business activity or a limited number of clients and/or management personnel. The understanding of this risk is the main reason that our portfolios are relatively diversified. On a portfolio level, the tracking error range is monitored on an ongoing basis using both ex-ante and ex-post analysis, and we have developed in-house a powerful on-line risk-monitoring tool called Portfolio Risk and Investment Strategy Manager (PRISM). This tool is supplemented by more tailored tools for small-company portfolios, including group position and portfolio liquidity monitoring.

### Implementation

Schroders has committed separate resources for implementation. The implementation team replicates the investment strategy (defined by Matthew Dobbs) across all applicable portfolios and identify portfolio-specific restrictions that limit holdings of certain issuer names or do not permit investment in certain asset classes. This is a highly efficient process, aided by the use of third-party trade processing and implementation software. The group uses the Charles River compliance engine to ensure that any trade proposed for a portfolio passes the investment criteria specified by that portfolio before execution.

## Team Structure

Portfolio Manager Matthew Dobbs				27 (27)			
North America		Japan		Pacific ex Japan	Pan Europe		
Jenny Jones	5 (28)	Takuya Furutani	4 (14)	Chua Piang Sze	4 (15)	Rosemary Banyard	10 (26)
						Andrew Lynch	10 (10)
Robert Starbuck	5 (31)	Andrew Rose	27 (27)	Kenneth Chan	4 (9)	Andy Brough	21 (21)
Andrea Bici	5 (19)	Takahiko Okutsu	15(15)	Yoon Hee Kyoung	1 (5)	Gillian de Condole	8 (8)
Cezary Nadecki	4 (11)	Ayumi Kobayashi	4 (19)	Goh Wee Ming	1 (7)	Luke Biermann	(2) (2)
Steven Kirson	2 (24)	Kazuhiro Toyoda	- (10)	Richard Sennitt	15(15)	Kunal Kothari	(1) (1)
John Helfst	3 (14)			Kim Young Roe	- (9)		
Alexander McCormick	2 (10)						
12 Analysts		13 Analysts		22 Analysts		18 Analysts	

\* Source: Schroders, numbers shown depict each person's years of experience at Schroders and, in brackets, years in the industry. As of January 31, 2009.

## Risks

All investments 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. Investments in small and medium capitalization companies generally carry a greater risk than is customarily associated with larger capitalization companies, which may include, for example, less public information, more limited financial resources and product lines, greater volatility, higher risk of failure than larger companies, and less liquidity.

## Why Schroders for Global Small Cap?

- Strongly resourced team of investment professionals specializing in global small company research and investment
- Proprietary primary research conducted by Schroders offices around the world
- Cross fertilization of investment ideas between regions

### Schroders plc

Schroders is a global asset management company with \$158 billion under management as of December 31, 2008. 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 approximately 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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