

# Schroders Multi-Asset Growth Strategy Overview

## Summary

The Multi-Asset Growth strategy aims to achieve equity-like returns but with significantly lower volatility by investing in a diversified portfolio of growth assets such as equities, absolute return funds, private equity, emerging market debt, high yield debt, property, infrastructure and commodities. We aim to capture market growth by dynamically allocating across asset classes to benefit from market conditions that arise throughout the economic cycle. We invest either actively or passively using an open architecture of proprietary and external funds.

## Firm highlights

- Schroders manages approximately \$322.8 billion in assets worldwide
- Asset management is our sole business
- Over 335 portfolio managers and analysts globally
- Dedicated to proprietary research – fundamental and quantitative
- Truly global reach: 32 offices in 25 countries

## Team highlights

- Team based approach with portfolio managers drawing on the expertise and experience available within Risk Management, Economics, Multi-Manager and Structured Investment teams
- Multi-Asset Solutions team comprises of approximately 60 investment professionals globally
- Team manages assets of \$55 billion globally
- Access to Schroders global network of investment professional

## Key features

- 1. Long experience in multi-asset investing**
  - Schroders has over 60 years' experience in managing multi-asset portfolios
- 2. Dedicated well-resourced team**
  - Global team with 60 investment professionals
  - Supported by experts in specialist disciplines including economics, risk management, structured investments and multi-manager research
- 3. Dynamic asset allocation**
  - Analysis of economic cycle, asset valuation and sentiment forms core of qualitative investment process
  - Supported by detailed quantitative economic analysis
- 4. Market leading quantitative portfolio construction tools**
  - Proprietary portfolio construction and risk management tool, Schroder Multi-Asset Risk Technology (SMART)
  - Models expected portfolio risk and return under a variety of market conditions through assumption setting process

## Investment objective

Seeks high total return with significantly lower volatility than equities

## Investment philosophy

Our philosophy for managing Multi-Asset Growth portfolios is based on three core beliefs;

**Diversification:** Asset classes exhibit different characteristics and behave differently through the economic cycle. We believe that a diversified allocation to a wide range of both traditional and non-traditional asset classes with low correlations generate long-term real returns, with a lower volatility than equities alone.

Team data and statistics as of March 31, 2011.

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# Schroders

## Investment philosophy (continued)

**Asset Allocation with Risk Management:** Portfolios are actively managed through the economic cycle to balance opportunity and risk. We eschew benchmarks in favour of an approach that is truly focused on the risk and return requirements of our clients' behalf. Every investment risk that we take on your behalf must be intentional and focused on improving the trade-off between risk and return.

**Flexible implementation:** Our approach utilizes a combination of passive management and internal and external active management within a fee budgeting framework. This means we shall only pay for active management in markets when we believe it can add value.

## Investment process

The Multi-Asset Growth strategy has the freedom to invest wherever the most attractive risk-adjusted opportunities are to be found. It is diversified across a broad range of growth assets at all times. Every asset class has to earn its position in the portfolio, either from a return-enhancing or risk-reducing perspective. We do not look to add value trading short term market gyrations but seek out opportunities where markets are mispriced relative to their medium term outlook. The primary drivers for these decisions are a consideration of the macro-economic environment, a fundamental framework for asset class valuation and investor sentiment. Asset allocation decisions are grounded by our three stage process described below:

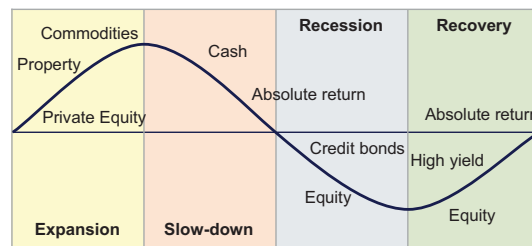


Source: Schroders, as of May 31, 2011

\*Team of 30 includes portfolio manager, quant analysis, research, trading and support

### Cyclical Market Forum (CMF)

The CMF assembles multiple strategy and market inputs from asset class specialists and the economics and Multi-Asset teams. At the CMF our economists present a baseline view for the world economy together with a bull and bear scenario, with accompanying forecasts for the key macro-economic indicators: growth, interest rates and inflation. Each investment team then explains how they believe their asset class would perform in these scenarios and their level of conviction in these views. Following debate and consideration of the cyclical indicators, representatives from the Multi-Asset team vote on the most likely economic scenario for the next 12 to 18 months.



Source: Schroders. Graphs for illustration purposes only.

### Global Asset Allocation Committee (GAAC)

The GAAC meets on a monthly basis (more often if market conditions dictate) and comprises six senior Multi-Asset investment professionals. The Committee takes into account information gathered during the CMF and the output of the Economics and Strategy team's valuation, sentiment and economic cycle models. Our process is primarily qualitative, with each member of the GAAC responsible for identifying valuation and thematic anomalies across and within asset classes that can be implemented as active asset allocation positions within portfolios. These trade ideas are all expressed as pair trades, i.e. where we believe one asset will outperform another. The pair trade is therefore to buy the preferred asset and to sell the less favored. They are well diversified and are structured broadly.

## Investment process (cont'd...)

This includes trades across asset classes, geographic regions, styles or credit strategies. In order for any trade idea to be considered, it must be proposed by one member, seconded by another, have a strong rationale and have profit and loss limits. Crucially, the performance of each trade forms a part of each proposer and seconder's annual assessment and compensation. This means the process is based on high-conviction ideas with direct accountability for performance. We believe that this degree of conviction and accountability distinguishes our process and leads to a greater probability of success.

## Portfolio construction and management

### Portfolio Construction

Using the asset allocation policy set by the GAAC, our multi-asset fund managers set asset class preferences by assigning each asset class a score between 1 (most favored) to 4 (least favored). They then construct the portfolio ensuring it has a higher weighting to our preferred asset classes while meeting all of our risk, return and diversification criteria.

The portfolio manager then includes those thematic trades which can be implemented. For example, while the first stage derives the target weight in equities, there may also be a thematic trade on the GAAC list of approved trades.

### Portfolio Management

We actively manage our asset class exposures with changes in asset allocation typically implemented via a derivatives overlay to achieve the desired market exposure, or by changing the underlying cash instruments.

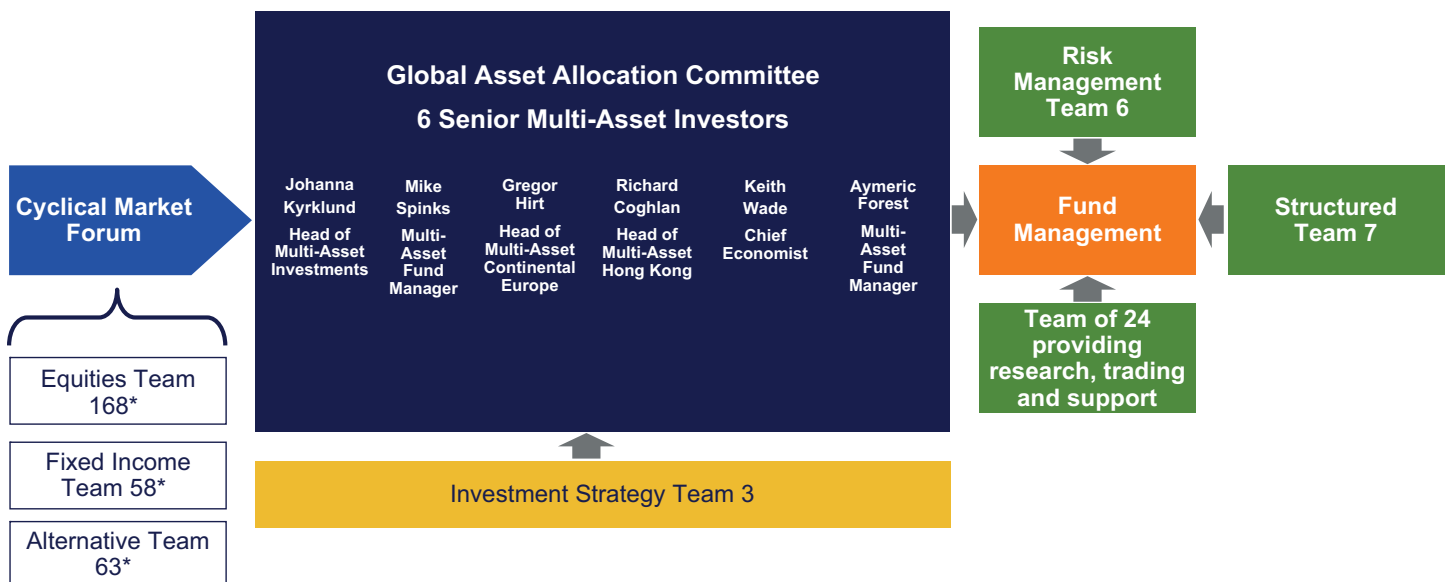
### Manager Selection

We have access to an outstanding range of Schroders' funds plus the ability to include external funds where appropriate, utilizing the expertise of our Manager Selection Analysts team. When selecting managers in alternative asset classes input is also sought from our specialist alternative investments divisions. We aim to blend funds with differing processes and styles in order to achieve our return objective whilst balancing the portfolios' risk.

We aim to select active managers only where we believe we are achieving the best value for money, and that the expected return is worth the fee we pay for that fund. Ultimately, the selection of any fund is based on five factors: 1) the quality of the investment manager / process 2) consistency of performance – particularly through cycles and in line with their style 3) a strong and well run business 4) ability to absorb assets and grow and 5) an emphasis on teamwork not Stars.

## Team structure

Access to Schroders' global integrated network of investment experts provides key inputs to asset allocation to take advantage of inefficiencies and market dislocations.



### Risk management

Our objective is to ensure that the portfolio has a diversified range of exposures to the various asset classes. As well as ensuring that the portfolio is invested across numerous positions, we make use of sophisticated risk analysis to assess and quantify different types of risks to which the strategy is exposed. Our core risk management system is a suite of three Schroder Multi-Asset Risk Technology (SMART) tools with each performing a different but important role in the management and monitoring of portfolio risk, as outlined below.

1. **A portfolio construction tool:** It provides portfolio managers with the means to design portfolio strategies with particular return and risk characteristics against a variety of benchmarks. One of the key benefits of SMART is its flexibility.
2. **SMARTVaR:** Any portfolio created within SMART can be analysed in SMARTVaR which provides VaR reporting at different confidence levels (90% - 99.5%) over different time horizons and performs CVaR – based risk budgeting. Asset class assumptions can be stress-tested within SMARTVaR by stressing, for example, the correlation matrix. Portfolios can be modified to analyse the effect of changing the portfolio structure.
3. **SMART Trader:** Enables us to assess factor risks in portfolios such as equity, fixed income, small cap, commodities, credit and the US dollar. Although the strategy has a high degree of flexibility, diversification is paramount in managing overall risk. We have therefore set ranges on the net exposure to each asset class to ensure the portfolio is broadly diversified at all times and that no one asset class contributes excessively to total portfolio risk.

### Risks

All investments, domestic and foreign, involve risks including the risk of possible loss of principal. The market value of a 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. Investments in small- and medium-capitalization companies may involve a higher degree of risk and volatility than investments in larger, more established companies. All investments involve risks including the risk of possible loss of principal. The market value of a portfolio may decline as a result of a number of factors, including interest rate risk, credit risk, inflation/deflation risk, currency risk, mortgage and asset-backed securities risk, U.S. Government securities risk, foreign investment risk and derivatives risk.

### Why Schroders for Multi-Asset Growth?

- Experienced team of investment professionals supported by the global resources of Schroders
- Portfolio diversified across broad spectrum of growth opportunities
- Our Multi-Asset Growth portfolios exploit three sources of return
- Utilizes the full range of Schroders' expertise and external opportunities

#### Schroders plc

Schroders is a global asset management company with \$322.8 billion under management as of March 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 335 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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Diversification does not assure a profit or protect against loss in a declining market.

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