Schroder US Small Cap Equity
Strategy Overview

Summary

The US Small Cap Equity investment strategy is a bottom-up, fundamental and research-based approach. The portfolio manager and analysts seek to identify those companies that have compelling business models, strong management teams and attractive valuation levels. Sources of research include company managements, competitors, media and suppliers. The portfolio of 100-150 stocks is diversified by type of company, with approximately 50-60% of the portfolio invested in mispriced growth opportunities, 20-50% in “steady eddies” (i.e. companies with stable and dependable earnings and revenue characteristics), and 0-20% in turnarounds.

Firm highlights

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

Team highlights

- Team, led by Jenny Jones, manages approximately $3.2 billion in US Small Cap strategy and $5.5 billion in SMID Cap strategy*
- Lead portfolio manager with over 31 years investment experience
- Dedicated team of 6 investment analysts wtih an average of 22 years investment experience

*Strategies are closed to new investors.

Key features

- Flexible core investment style; able to reflect changing market dynamics throughout the economic cycle
- Bottom-up fundamental research provides the basis for stock selection
- Focus on companies with strong appreciation potential selling at reasonable valuations
- Invests in a combination of three distinct and complementary types of companies; smoothes volatility and tends to offer protection in down markets

Investment objective

We aim to outperform the Russell 2000 Index net of fees over a market cycle (typically 3-5 years).

Investment philosophy

As fundamental, bottom-up investors we believe that we can add value over time through our research. In particular, we believe that operating in this less efficient segment of the market increases our opportunities to add value.

Secondly, we believe that by building our portfolio with diversified alpha sources we can lower overall portfolio risk. We view our three main types of stocks (mispriced growth, steady eddies and turnarounds, described in the investment process section) as representing diversified alpha sources.

We believe that valuation matters, so we are careful about both entry and exit prices.

In analyzing companies we focus on underlying business models and the cash flow dynamics of the model. If we find these two elements to be attractive we then analyze the valuation of the stock.

All data and statistics as of March 31, 2011

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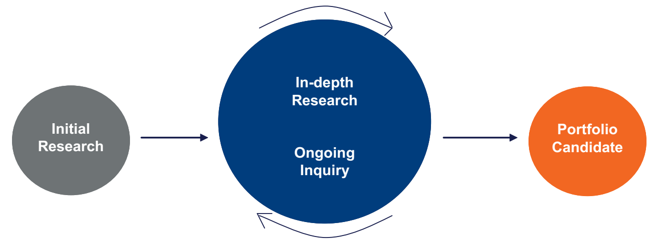
Schroders

Investment process

We focus on small cap companies between $200 million to $2 billion companies in market cap.

Within this universe, the analysts look to identify companies which offer strong business models, attractive margins and superior management teams. The research process is extensive as we drill down on many of those ideas that we believe may be potential investments. We are bottom-up, fundamental, research-focused investors. The macro-economic environment will be considered in the context of the investment, but a stock must have strong attributes on its own to be purchased.



Idea Generation	Deep fundamental research	Final stock selection
Sources of new ideas: — Management meetings — Industry conferences/contacts — Sell side analysts — Publications — Database screens Note: new ideas must be between $200 million and $2 billion at time of purchase	1. Initial idea qualification by PM or Research Director 2. Thorough analysis of: – Business model – Cash flows and financials – Management track record – Competitors – Other relevant factors – Valuation and Target price	Portfolio manager must have: — High conviction — Understanding of risks and opportunity And: — Does it fit within current portfolio?

Source: Schroders

The analysts and portfolio manager look to identify investment ideas that potentially have a compelling investment thesis. As noted above, the thesis begins with a sustainable business model with attractive cash flow dynamics. We have a two- to three-year horizon when purchasing a stock.

Ideas may come from a variety of sources including company managements, competitors, suppliers or the media. Screens may also be run to ensure that we have not overlooked any companies with compelling metrics. Areas of focus include:

From the Income Statement	From the Balance Sheet
Historical revenue & sales growth	Debt levels: variable v. fixed
Gross and operating margin analysis	Fixed asset levels/depreciation
Profitability (ROA, ROE)	Cash levels/accounts receivable/payable
EPS growth - historical	Goodwill
	Accounts receivable/payable

Source: Schroders

As noted previously, we place significant emphasis upon a review of the cash flow dynamics of the business – i.e. is the company generating free cash flow?

The focus of the analyst will vary depending on the sector. For example, in retail, margin analysis, revenue growth and same store revenue growth are key metrics. For a technology company, backlog and product cycle may be the driving forces.

If an analyst remains interested in the stock after the above analysis, the investment is considered in the context of a broader sector/industry backdrop. What has the industry growth rate been, and what is the expected growth rate going forward? How many players are there in the industry, and how does market share break down? What is the pricing and cost structure in the industry – how cyclical is it and where are we in the cycle?

Finally, the valuation of the company must be attractive and the fund manager must have a high degree of conviction for the stock to be purchased in the portfolio.

Diversified Alpha Sources

A distinguishing characteristic of our approach is that we invest in three different types of growth in the portfolio. We identify these as:

— Mispriced Growth
— Steady Eddies
— Turnarounds

Investment process (continued...)

Mispriced growth are companies in which some sustainable change is occurring that will lead to a higher level of earnings, revenues, cash flows or margins over the ensuing two to three years. Further, we believe that the market has not fully recognized the potential impact of this change in the stock price. Mispriced growth stocks are normally 50 to 60% of the portfolio, and normally our best returns are earned in this group. These stocks tend to do best in rising markets, however, this group is not as resilient in negative market environments as steady eddies.

Steady eddies comprise 20 to 50% of the portfolio and can be characterized as being stable growth companies. While their growth rates typically are not as high as the mispriced growth stocks, they tend to have a more consistent quality to them. This can be due to a high level of recurring revenues. These stocks typically hold up well in declining markets, for the obvious reason that in that environment the market tends to be looking for companies with some predictability or stability to their earnings. These stocks provide a defensive ballast to the portfolio and are a significant contributor to our strong downside capture ratio and lower overall standard deviation.

Turnarounds, which can be anywhere from 0% to 20% of the portfolio are companies in which something has occurred to take the company from their growth path, we see a catalyst in place that we believe will fix the problem and we see some evidence that organic growth is beginning to return to the company. The performance of these stocks is less predictable (relative to overall market conditions) than the other two categories. However, historically when these stocks work they add a nice performance boost to the portfolio.

Investment process — portfolio construction

The portfolio is constructed on a stock by stock basis. Portfolio weightings at the stock level are based on the portfolio manager's conviction level, with a maximum weight of 5% in any one security. Sector weights are typically a residual of our stock selection process, and while we are aware of benchmark weights, they do not play a material role in making the decision to invest in a stock. However, we do have a guideline in place that limits our under- or overweight in any one sector to ±10% of the benchmark weight. The number of securities in the portfolio will be approximately 100-150. We strive to keep cash typically between 5-10% of the portfolio. The cash balance and the number of names typically reflect our ability to find attractively priced stocks.

Investment process — research

Our research process is fundamental and bottom-up. The analysts and portfolio manager utilize a number of different sources to obtain their research, including companies, competitors, suppliers, sell side research analysts, the media and company financial documents. Extensive balance sheet and income statement analysis is also conducted.

Additionally, the product management team also runs quantitative screens for the analysts and portfolio manager on request. For example, if the portfolio manager discerns that a particular characteristic is currently working in the marketplace, a screen may generate a universe of companies that have a high exposure to that particular characteristic. Importantly, the portfolio manager must determine that the particular characteristic has solid investment underpinnings (e.g., high free cash flows), and that it is not a current "fad." The vast majority of our research is conducted internally.

The majority of the research that the team uses in selecting stocks for the portfolio is their own fundamental analysis on company financials and management teams. Assessing company management is a critical element of our stock selection process. Time spent with company management will vary depending on a number of factors, including; how familiar we are with the industry, whether we have met the team before, how simple/complex the business model is, etc. The team meets with companies both on-site, in our offices and at conferences. Total meetings equal approximately 1000 per year, with about 10% of these on-site at company locations.

Approximately 20% of our research effort is from external sources. External research sources include sell side analysts, who typically work for smaller, regional firms. We also subscribe to various information and analysis services (including FactSet, Bloomberg, Thompson, ILX), financial media and industry journals.

US Small Cap team structure

Jenny Jones – Portfolio Manager, Small & SMID Cap Equity 31 years of investment experience Sectors: Insurance, Capital Goods	
Robert Starbuck – Director of Small/SMID Research 34 years of investment experience Sector: Energy, Materials	**Steve Kirson, CFA – Equity Analyst** 27 years of investment experience Sector: Technology
Peter Wen – Equity Analyst 17 years of investment experience Sector: Health Care	**John Helfst – Equity Analyst** 17 years of investment experience Sectors: Banks, Brokers, Specialty Finance
Alex McCormick, CFA – Equity Analyst 13 years of investment experience Sectors: Consumer Discretionary, Consumer Staples	**Cezary Nadecki, CFA – Equity Analyst** 13 years of investment experience Sectors: Telecommunications, Utilities
Fred Schaefer – Product Manager 24 years of investment experience **Minji Chang – Product Executive** 4 years of investment experience	**David Speyer – Portfolio Management Assistant** 6 years of investment experience

As of March 31, 2011

Why Schroders for US Small Cap Equities?

– Approach rooted in firm-wide commitment to fundamental research
– Highly experienced, specialized team based in New York
– Dedicated research effort to exploit opportunity in under-researched area
– Consistent, repeatable investment process
– Strong sell discipline ensures all holdings justify their positions within portfolio

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.