

#### Summary

The Schroder Value Tax-Aware strategy uses a value-driven approach and seeks to maximize after-tax total return by investing in a portfolio of investment grade, fixed income securities. The strategy seeks to add value by capitalizing on imbalances in the relationships among sectors and individual bonds, spanning both tax-exempt municipals and US dollar-denominated taxable bonds. We believe that investing in undervalued sectors and bonds and selling expensive ones using an after-tax relative value assessment is the ideal process to capture value.

The investment universe for this strategy considers both tax-exempt municipal bonds as well as US dollar-denominated taxable fixed income securities, including governments, corporate bonds, asset backed securities and sovereign and supranational entities and taxable municipals. There is no exposure to currency risk, high yield bonds or emerging market debt. The strategy is duration neutral, meaning that portfolio duration is set in an attempt to meet client objectives and does not incorporate forecasts or speculation.

#### Why Schroder Value Tax-Aware Strategy?

- Consistent and proven investment process, practiced for more than 30 years
- Value-driven style that seeks to capitalize on relative value fluctuations between taxable and tax-exempt bonds
- Multiple sources of input to investment ideas, including proprietary analytics and credit research framework
- Successful performance track record over full market cycles

#### Firm highlights

- Founded in 1804, with a strong family presence to this day
- Asset management is our main business
- Over 740 investment professionals worldwide
- Truly global reach: based in London, with offices in 32 countries
- Expertise in Fixed Income, Equities, Multi-Asset, Solutions, and Alternatives

#### Team highlights

- Disciplined approach to tax-aware strategies since 1980
- Experienced and stable team with an average of 23 years of investment experience
- Investments are team managed, and portfolio management and credit research are an integrated function
- Access to team of global credit analysts utilizing a rigorous research process that combines fundamental and relative value assessment

## Key features

---

- Proprietary analytics assessing value between tax-exempt and taxable bonds
- Primarily invests in tax-exempt bonds but will invest in taxable bonds when the team believes they are undervalued
- Value-driven, opportunity based investment process
- Emphasis on liquidity and credit quality in order to provide ability to act quickly or stay in positions longer term based on client gain/loss considerations
- Customized for each client's specific requirements and tax needs within consistent, value-oriented approach
- Crossover decision and security allocation are the main sources of generating return
- Portfolio of investment grade bonds only, with no interest rate forecasting or currency speculations
- Investments are chosen based on relative value without reference to qualitative content of the benchmark
- Daily interaction among key decision makers to evaluate opportunities and relative value

## Investment objective

---

The strategy seeks to maximize after-tax total return at the specified target duration over a market cycle using our value-driven approach and investing in investment-grade fixed income securities.\*

\* There is no guarantee that any investor objective or outcome can be achieved.

## Investment philosophy

---

While municipal bonds are the traditional fixed income choice for most US taxpayers, our strategy will also invest in taxable bonds when we believe they are undervalued. Varying allocations between tax-exempt and taxable securities is a defining characteristic of our management style. When we believe tax-exempt bonds are undervalued, we increase portfolio share, and conversely, when we believe tax-exempts are expensive, we de-emphasize them and focus on areas where we can find value. When investing in taxable bonds, we compare the value of owning Treasuries relative to credits.

Major imbalances exist in the relationships between individual bonds or sectors, and are caused by the ebb and flow of supply and demand, as well as sentiment and positioning. These are far more powerful factors in driving valuations than changes in fundamentals of investment-grade bonds. We believe these market anomalies can be exploited to generate returns.

We believe that undervalued bonds will outperform overvalued bonds and our strategy is focused on purchasing bonds that we believe are undervalued. When, in our view, bonds become fully priced, we seek to exchange them for better valued issues.

## Investment process

---

The investment process for tax-aware portfolios focuses on core principles of value and discipline. In constructing portfolios, there are three parallel processes at work, and a system of checks and balances to ensure portfolio objectives are met:

- Adherence to the desired overall portfolio characteristics
- Value assessment
- Portfolio construction

## Investment process (continued)

---

### Adherence to the desired overall portfolio characteristics

The investment team determines the desired general characteristics for the portfolio. Principal factors include: interest rate duration, spread duration, yield, roll, convexity and yield curve positioning. Depending on the duration of the portfolio and applicable tax rates, different emphasis may be placed on each of the individual factors. We believe analytical tools that apply to taxable bonds do not work properly on tax-exempt bonds, and instead has developed and uses proprietary analytics, including a Net Implied Tax Rate that indicates when we believe municipals offer value.

### Value assessment

The strategy's defining characteristic is crossover management, or the ability to allocate among taxable and tax-exempt municipal bonds, but also invest in other taxable securities, such as Treasuries and credits, when we see value. Relative value analysis across tax-exempt and taxable sectors is used to position and concentrate portfolios in what we view as the most undervalued securities within the most undervalued sectors. We analyze historical spread relationships among sectors and securities, and also look at dynamics of supply and demand, and sentiment and positioning driving valuations.

In selecting among the three broad sectors (tax-exempt municipals, Treasuries and credits), we closely analyze the historical relationships among the sectors to understand what is driving the relative valuations. Broad sector and industry research help us try to determine whether an area of the market is under pressure for legitimate reasons or is truly underpriced or overpriced relative to fundamentals. The portfolio manager's direct interaction with the market is critical in judging the supply, demand and/or other technical and temporary factors that drive price anomalies in the market, as well as the implications on after-tax yield.

### Portfolio construction

Successful portfolio construction is the result of properly managing and integrating the desired portfolio characteristics and the more subjective relative value judgments. At times, the bonds determined to be cheapest in the market may be out of line with generally appropriate portfolio characteristics. There are always tradeoffs and compromises between structure and value. The greater a particular portfolio's constraints and the higher its capital gains rate, the more we consider structure; the greater the flexibility of a portfolio to operate without constraints, the more we consider value. When there are portfolio design conflicts, value generally receives more weight than strict adherence to structure.

## Risk management

---

Risk controls are used to ensure portfolios are invested appropriately for each client and are consistent with the strategy and style discipline. The portfolio management team reviews portfolio holdings and risk characteristics on a daily basis. Schroder Value also integrates and augments third-party systems with internally developed applications to measure and describe portfolio risk exposures. These reports cover investment risk and portfolio compliance controls and include (i) a comparison of the critical risk metrics of each client portfolio to the appropriate model portfolio, (ii) a comparison of portfolio risk characteristics to the benchmark and other portfolios that follow the same strategy and (iii) exceptions related to client investment guidelines and Schroder Value's internal investment parameters.

The portfolio management team establishes a model portfolio for all portfolios with similar benchmarks and investment objectives. Each model portfolio represents the team's view of the ideal investment policies and risk characteristics for the applicable strategy that we seek to replicate across similarly managed portfolios. The team meets regularly to review the individual portfolios and to evaluate both the portfolio review process and the model portfolios.

At the firm level, the COO of Investments and the Head of Investment Risk have overall responsibility for group-wide investment risk. There is a dedicated fixed income risk manager, and Schroders compliance department oversees operational and compliance issues. In this way, an independent Fixed Income Risk Management team operates independently of both the portfolio managers and credit analysts.

## Risk disclosures

---

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 interest rate risk, credit risk, inflation/deflation risk, mortgage and asset-backed

securities risk, US Government securities risk, foreign investment risk and liquidity risk. Frequent trading of the portfolio may result in relatively high transaction costs and may result in taxable capital gains.

**Important information: The views and opinions herein are those of Schroder's investment professionals, and are subject to change over time.**

This document does not constitute an offer to sell or any solicitation of any offer to buy securities or any other instrument described in this document. The information and opinions contained in this document have been obtained from sources we consider to be reliable. No responsibility can be accepted for errors of facts obtained from third parties. Reliance should not be placed on the views and information in the document when making individual investment and/or strategic decisions. Schroders has expressed its own views and opinions in this document and these may change. Past performance is no guarantee of future results. The value of investments can go down as well as up and is not guaranteed. Sectors/securities illustrate examples of types of sectors/securities in which the strategy invested and may not be representative of the strategy's current or future investments. Portfolio sectors/securities and allocations are subject to change at any time and should not be viewed as a recommendation to buy/sell. The opinions stated in this document include some forecasted views. We believe that we are basing our expectations and beliefs on reasonable assumptions within the bounds of what we currently know. However, there is no guarantee that any forecasts or opinions will be realized. Schroder Investment Management North America Inc. ("SIMNA Inc.") is registered as an investment adviser with the US Securities and Exchange Commission and as a Portfolio Manager with the securities regulatory authorities in Alberta, British Columbia, Manitoba, Nova Scotia, Ontario, Quebec and Saskatchewan. It provides asset management products and services to clients in the United States and Canada. Schroder Fund Advisors LLC ("SFA") markets certain investment vehicles for which SIMNA Inc. is an investment adviser. SFA is a wholly-owned subsidiary of SIMNA Inc. and is registered as a limited purpose broker-dealer with the Financial Industry Regulatory Authority and as an Exempt Market Dealer with the securities regulatory authorities in Alberta, British Columbia, Manitoba, New Brunswick, Newfoundland and Labrador, Nova Scotia, Ontario, Quebec, and Saskatchewan. This document does not purport to provide investment advice and the information contained in this material is for informational purposes and not to engage in trading activities. It does not purport to describe the business or affairs of any issuer and is not being provided for delivery to or review by any prospective purchaser so as to assist the prospective purchaser to make an investment decision in respect of securities being sold in a distribution. SIMNA Inc. and SFA are indirect, wholly-owned subsidiaries of Schroders plc, a UK public company with shares listed on the London Stock Exchange. Further information about Schroders can be found at [www.schroders.com/us](http://www.schroders.com/us) or [www.schroders.com/ca](http://www.schroders.com/ca). Schroder Investment Management North America Inc., 7 Bryant Park, New York, NY 10018-3706, (212) 641-3800.