

## Schroder Global Equity Alpha

### Strategy Overview

#### Summary

Schroders' Global Equity Alpha strategy is focussed on fundamental research, aimed at delivering strong outperformance over the longer term within the context of a risk management framework. We seek to invest in stocks that we expect to deliver forward earnings growth that will exceed the market's expectations, i.e. stocks with a

positive "Growth Gap". We focus on only the very best investment ideas that are identified by Schroders' team of locally based Equity Analysts and our Global and International Equities Team of Portfolio Managers and Global Sector Specialists (GSS).

#### Firm highlights

- Founded in 1804, with a strong family presence to this day
- Asset management is our main business
- Over 700 investment professionals worldwide
- Truly global reach: based in London, with offices in 27 countries
- Expertise in Fixed Income, Equities, Multi-Asset, Solutions, and Alternatives

#### Team highlights

- Team manages approximately \$22 billion in Global and EAFE assets
- Experienced dedicated team of 11 investment professionals based in London
- Global sector specialists pull our best ideas from around the world
- Utilizing more than 100 locally based research analysts in 11 countries
- Full access to centralized teams of specialist data scientists and sustainable investment professionals

#### Key features

##### Distinctive investment philosophy

- Clearly articulated approach underpinned by strong empirical evidence
- Philosophy that seeks to exploit the persistent market inefficiencies

##### Research

- *Breadth of research coverage* - Over 100+ equity analysts based around the world
- *Global perspective* - Global Sector Specialists marrying local research with global analysis
- *Innovative use of data analytics* - Industry-leading capability to improve fundamental research efforts
- *Integration of ESG* - Assessing the durability of a company's earnings

##### Portfolio construction

- *Risk-based construction* - Ensuring consistent alignment between portfolio risk and manager conviction
- *Controlled factor risk* - Alignment of risk and stock selection to drive enhanced performance consistency

##### Engagement

- *Active ownership* - Regular dialogue with companies promoting improvement of long term returns

## Investment objective

We aim to outperform a broad global equity index<sup>1</sup> by 3.0% (gross of fees) p.a. Country and sector weights are generally a residual of our bottom-up stock selection process, combined with the appropriate risk-control overlay.

<sup>1</sup>There is no guarantee that any investor objective or outcome can be achieved.

## Investment philosophy

We believe that high quality, reasonably priced companies with strong growth prospects and a sustainable competitive advantage will have the ability to produce superior long-term investment returns. We also believe that in-depth fundamental research, incorporating a comprehensive macro-economic viewpoint, is the most reliable means of finding such companies and identifying where their growth is undervalued by the market.

We believe markets are inefficient in three major ways:

- First, they tend to focus on short-term sentiment and therefore are more volatile than fundamentals would dictate
- Second, over the longer term, markets are slow to adjust to major structural trends
- Third, markets tend to consistently extrapolate recent trends and overpay for recognized growth.

We try and exploit these inefficiencies by focusing on finding those quality growth companies with a sustainable competitive advantage that are mispriced by the market.

## Investment process

Schroders' global & international equity team applies in-depth fundamental research processes to construct concentrated portfolios with the aim of

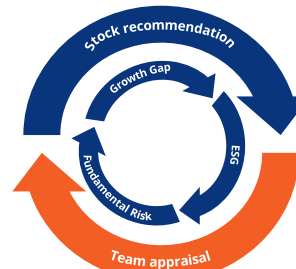
delivering competitive investment returns. Stocks are researched at the local level and, crucially, analyzed in the context of the global market.

### Idea generation



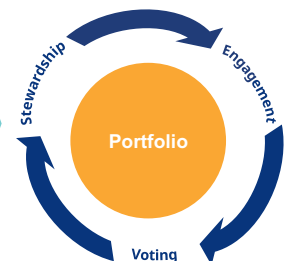
- GSS - primary source for idea generation
- Regional analysts provide local perspective
- GSS recalibrate analysis to reflect the team philosophy and approach

### Stock selection



- An independent investment view
- GSS recommendation
- Team-based appraisal

### Portfolio construction and risk control



- Risk adjusted return expectation
- Proprietary risk framework

Source: Schroders

## Stock selection

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As stock selection is the primary source of added value in our Global Equity Alpha strategy, we dedicate most of our time researching stocks and ensuring that we include only those stocks in which we have the highest conviction. We follow a three-step decision-making process:

**Step 1: Idea generation** — Schroders' GSSs are the primary source of idea generation, focusing on the highest ranked stocks of our local analysts as well as ideas generated from their own analysis and insights. Rather than looking at local market strength, the GSS team evaluates company strength relative to global sector dynamics. The investment team also uses a proprietary quant screen aligned to the team's investment approach to highlight potential investment opportunities.

**Step 2: Stock selection** — The GSS team focuses on identifying companies where the forward earnings growth is not yet identified by the market; we term this the "growth gap". The GSSs build detailed earnings and cashflow models and conduct meetings with company management to develop their investment thesis and devise an earnings roadmap for each stock. The GSSs produce a fundamental risk score for all of the companies researched. This framework scores companies for operational, financial and geopolitical risk, as well as incorporating ESG factors into analysis.

**Step 3: Portfolio construction and risk control** — Using the ideas generated by the GSSs, portfolio construction is undertaken by our Portfolio Managers. Our risk-adjusted return expectations and conviction level then determines the position size of each stock. Stocks with a higher relative upside, lower fundamental risk profile and higher liquidity will receive higher active weights in the portfolio. When constructing portfolios, country weights are the residual of our bottom-up stock selection process combined with the appropriate client risk control overlay.

## Portfolio construction

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Portfolio construction is a **team-based process** that includes the Portfolio Managers and Global Sector Specialists (GSS) with ultimate accountability and decision-making responsibility resting with head of team, Alex Tedder. Within the process, new investment candidates, typically championed by one of the GSS, are **debated by the entire team** – a debate that includes the identification of a suitable sell idea to fund the purchase. As portfolio construction is not tightly constrained by sector or region, any stock in the portfolio (regardless of sector / region) might be

targeted for sale or reduction.

The GSS generate a subjective **fundamental risk score** for all of their companies by utilizing a framework that scores across a range of categories of risks such as operational, financial, strategic, geopolitical and ESG. These scores are then incorporated in the portfolio managers' assessment of position size. Ultimately the portfolio managers are seeking to triangulate relative conviction, relative upside and fundamental risk in determining the appropriate position size for a stock.

## Risk management

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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. We have also

developed in-house a powerful on-line tool for monitoring risk, called Portfolio Risk Investment Strategy Manager (**PRISM**), which enables the portfolio manager to analyze risk at various levels and from different perspectives.

## Risk management (continued)

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Risk management is a high priority at Schroders and we believe that for an investment process to be effective and provide strong long-term returns it must have in place a **comprehensive system of risk management procedures and tools**. As well as PRISM, we utilize our Schroder Investment Risk Exception Notification system (**SIREN**) which monitors adherence

to the parameters of the investment framework of our portfolios. **SIREN** is maintained by our **dedicated Investment Risk Team**. In addition, the Head of Equities formally reviews the performance of all portfolios on a quarterly basis, identifying any significant deviations from median performance and analyzing ex ante risk.

## Why Schroders for Global Equities?

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- **Distinctive investment philosophy** underpinned by strong empirical evidence
- **Well-resourced, highly experienced team with global perspective**
- **Innovative approach to risk management** designed to enhance downside protection and consistency
- Integration of ESG within research and risk framework to assess the durability of earnings over time

## Risk disclosures

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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. These risks exist to a greater extent in emerging markets than in developed markets.

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

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