

Schroder International Equity Strategy Overview

Summary

The Schroder International Equity strategy is focused 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 30 countries
- Expertise in Fixed Income, Equities, Multi-Asset, Solutions, and Alternatives

Team highlights

- Team manages approximately \$24 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 70 locally based research analysts in 11 countries
- Globally integrated research platform

Key features

Well-resourced, highly experienced team

- Highly experienced in global investing (average 14 years investment experience; 9 at Schroders)
- Organized in a manner most suited to the global equity environment (matrix approach harnessing regional coverage and global sector perspective)
- Supported by a robust research platform: Schroders' has a network of over 70 equity regional analysts across 11 countries worldwide, and research notes and third-party reports are easily accessible through the firm's intranet research database

Effective, bottom-up investment process

- Focus on trying to identify companies which can deliver a positive earnings surprise or "Growth Gap"
- Effective, bottom-up investment process
- Well-resourced, highly experienced team incorporating global sector expertise and local knowledge

Key features (continued)

Robust multi-layered approach to risk

- Clear framework for subjectively identifying and scoring fundamental risks at a company level
- Clear framework for utilizing fundamental risk scores in conjunction with statistical risk analysis for position sizing and portfolio construction
- Strong framework for portfolio risk management with multiple layers of oversight to drive return consistency

Investment objective

We aim to outperform a broad international equity index by 2.0% (gross of fees) per annum.* Stock selection is the primary source of added value. Country and sector weights are generally a residual of our bottom-up stock selection process, combined with the appropriate risk-control overlay.

*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.

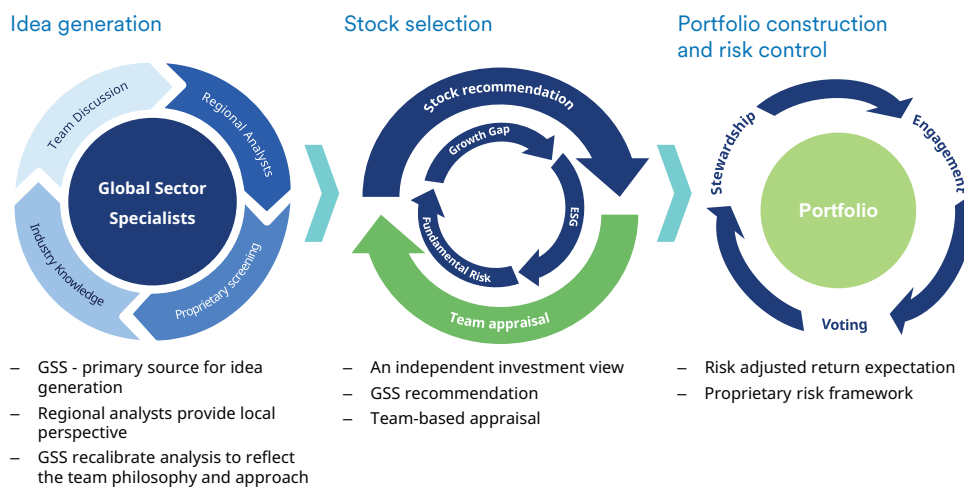
We believe markets are inefficient in three major ways:

- 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.



Source: Schroders

Stock selection

As stock selection is the primary source of added value in our International Equity 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 four-step decision-making process:

Step 1, Filter universe:

We begin with a universe of stocks of approximately 1,800 global companies with market capitalizations greater than \$2 billion. We narrow the universe to approximately 1,600 by combining quantitative screening techniques (e.g., screening for sufficient size, liquidity, and financial metrics that give an indication of 'quality') with a qualitative review by 70+ local analysts located in 11 countries worldwide. The final group of approximately 1,600 stocks is the subject of in-depth research, including proprietary company modelling that incorporates Schroders' macroeconomic views as inputs. Based on this work, each company is graded on a scale of 1 to 4 for relative local market strength.

Step 2, Global and local research overlay:

Schroders' GSS further narrow the universe from over 1,600 to a focus list of 500. The work of the GSS team focuses on stocks ranked 1 or 2 by the local analysts as being the strongest companies within their respective regions. But rather than looking at local market strength, the GSS team evaluates company strength relative to global sector dynamics and an ongoing assessment of stock ratings across regions. This overlay helps the GSS team reduce the universe to approximately 500 stocks.

Step 3, Stock selection:

Drawing from the focus list of 500 stocks, the GSS team focus on identifying companies where the forward earnings growth is not yet identified by the market; we term this the "growth gap". The GSS 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. They also develop a comprehensive risk score based on the fundamental analysis for each stock, which incorporates a wide range of risk factors from operation and financial to strategic and ESG related. We also use proprietary quant screens, developed in-house by the Global and International Equity team, to confirm or challenge these fundamental views.

Step 4, Portfolio construction and risk control:

Utilizing our highest conviction ideas and integrating any client-specific guidelines, we construct a portfolio of 80 to 120 stocks within Schroders' proprietary fundamental risk scoring framework. Our risk-adjusted return expectations, conviction level and relative upside then determine 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. In our overall approach to portfolio construction, country weights are the residual of our bottom-up stock selection process combined with the appropriate client risk control overlay.

Portfolio construction

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 Lead Portfolio Manager, Simon Webber. 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, geo-political 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

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 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.

Implementation

Schroders has committed **separate resources for implementation**. The team of Fund Managers' Assistants replicates the investment strategy (defined by the portfolio manager) across all applicable portfolios while identifying and working to any portfolio-specific restrictions. This highly efficient process is aided by the use of third-party trade processing and implementation software. The group uses the Charles River compliance engine to ensure that trades proposed for a portfolio pass the investment criteria specified by that portfolio before execution. Trades are executed through a **centralized resource of specialist dealers** via a paperless process that removes the need for investment personnel to be involved in dealing and ensures consistency across portfolios.

Why Schroders for International Equity?

- Supported by a very strong research platform: Schroders network of 70+ equity regional analysts across 11 countries worldwide
- Focused on bottom-up stock selection to drive value added and attractive growth and valuation characteristics
- Team based, rigorous, "total portfolio construction" process
- Internally developed risk analysis framework seeks to ensure that risks are aligned and quantified in line with our investment views

Risk disclosures

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.

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