

Summary

Schroders' International Small Cap Equity strategy has a core investment style with a growth bias. The investment strategy uses a bottom-up, fundamental, research-based approach. The portfolio manager and analysts seek to identify those companies that have compelling business models, strong management teams, attractive valuation levels and favorable long-

term growth prospects. The portfolio of approximately 150-200 stocks is diversified by region, country and type of company. It contains companies that typically exhibit solid return and growth characteristics, stronger than average balance sheets and cash flow attributes, and valuations broadly similar to or below those of the universe.

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 32 countries
- Expertise in Fixed Income, Equities, Multi-Asset, Solutions, and Alternative

Team highlights

- Lead portfolio manager with over 35 years investment experience
- Small Cap focused team of over 19 professionals located in London, Tokyo, Singapore, Seoul and Hong Kong
- The team draws on Schroders' numerous firm-wide global resources, including the large-cap Focus List analysts, an ESG Team, the Data Insights Unit, Global Sector Specialists and macro-economic research.
- Core team of Lead Portfolio Manager and Regional Specialists have an average of 26 years investment experience
- Local presence and knowledge of the key – primary research conducted out of Schroders research offices globally
- Team can draw on the broader Schroders focus list analysts – approximately 20% of holdings covered by focus list analysts
- Cross fertilization of investment ideas between regions and with Global Sector Experts

Key features

- Bottom-up stock selection the primary source of added value
- Focus on companies' long-term growth prospects – approx. 3-year horizon
- Undervalued securities with catalyst for appreciation to fair value
- Rigorous risk management at the security and country level

Investment objective

The objective of the Schroder International Small Companies strategy is to outperform the MSCI EAFE Small Cap Index* (before fees) over a 3-5year rolling cycle.

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

Investment philosophy

Schroders believes that the identification of mispriced companies with solid characteristics (visible growth and sustainable returns) is the key driver of excess portfolio returns. We also believe that rigorous, locally based fundamental research is critical to taking advantage of investment opportunities in small

companies, as these companies remain, generally, under researched. Consequently, Schroders' investment approach focuses on the fundamental attractions of an individual company's business model, as well as the potential for above-market growth at a reasonable valuation.

Investment process — stock selection

Stock selection is at the core of our international process. We take a long-term, fundamentally driven, research-based approach.

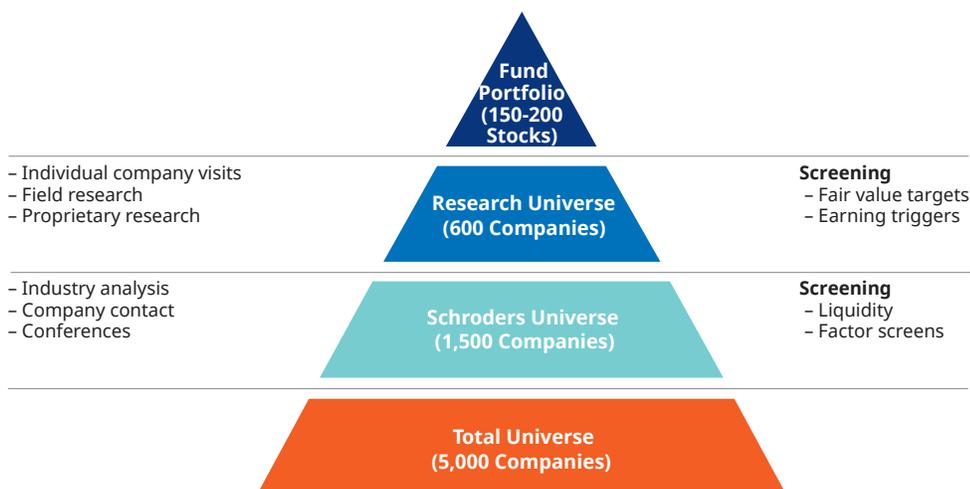
Stage 1: Reduction of a universe of 5000+ companies to what we term our effective "Schroders Universe" of approximately 1500 stocks (see Figure 1). This universe is determined primarily through the use of screens. Besides screening for liquidity, we also use factor screens. Reflecting our investment philosophy, these quantitative screens rank stocks in the total universe based on the equally weighted criteria of: growth, quality and valuation.

Stage 2: Refine the Schroders Universe of some 1500 stocks to a closely researched universe of approximately 600. This select group becomes the focus of our in-house proprietary research program, incorporating in excess of 1500 direct company meetings annually.

Each company is subjected to a thorough assessment of its business model, seeking to identify high quality companies offering above average and relatively visible earnings growth (i.e., a business model that is not overly reliant on an economic or business cycle over which management has relatively little control). The generic factors our research focuses on are outlined in Figure 2 and encompass both quantitative factors (e.g., growth prospects, market position, source of sustainable competitive advantage, balance sheet structure) and qualitative assessment, most critically of company management.

We also favor companies that we believe are strategically well positioned in growth industries with meaningful barriers to entry, and where we believe management to be of high quality and to have a motivating equity stake in the company concerned.

Figure 1 — Stock Selection



Source: Schroders

An explicit output of this research is a fair value target for closely followed stocks, typically determined by a P/E relative using our own forecasts for earnings on a 2- to 3-year time horizon (other calculations may also be used, e.g. a DCF calculation for more conceptual business models, or an assessment of trade/realizable NAV

valuation). We purchase those stocks that appear to have the greatest appreciation potential to fair value and where we can identify some short-term catalyst which we think is likely to cause that value to be realized, such as new product introductions or business mix shifts to more profitable areas.

Investment process — stock selection (continued)

Final stage: Regional small cap portfolio managers are responsible for stock selection within each regional bloc (Pan-Europe, Japan and Pacific ex-Japan). The regional managers are closely integrated with their respective research teams and

spend a sizeable proportion of their own time in research, company meetings, etc. Consequently, they have a thorough understanding of the fundamentals of the closely followed stocks, and the degree of conviction held by the analyst.

Figure 2 — Company Attributes

Quantitative	Qualitative
Sustainable Growth	Management Assessment
High real EPS growth	Interest in shareholder value
Visibility of earnings	Focused strategy
-Strong product or service franchise	Sound business practices
-Strong market share	Historic record of success
-Beneficiary of structural change	Length of time with company
Limited financing risk	Non Financial Factors
Ability to reinvest	-Sustainability of model
	-Governance
	-Labor practices

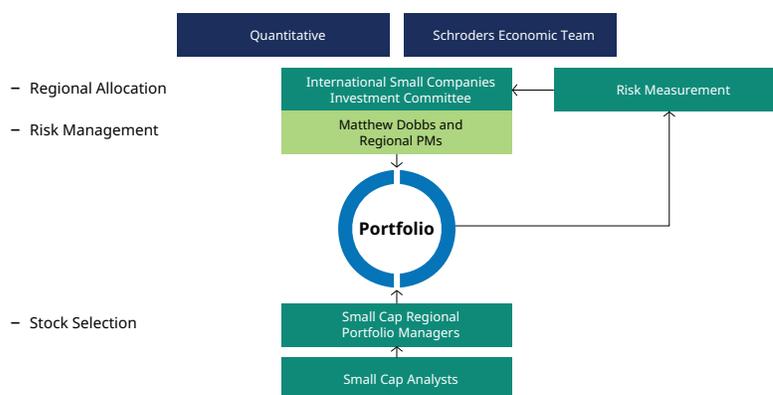
Source: Schroders

Investment process — portfolio construction

Overall portfolio construction is driven by the International Small Cap Investment Committee (“ISIC”), which is comprised of the senior regional specialists and is chaired by lead portfolio manager Matthew Dobbs. The ISIC meets weekly to review the overall portfolio and determine asset allocation. As Chairperson of the ISIC,

Matthew is responsible for ensuring that asset allocation is in line with the policy set by the Committee and with currency hedging policy. The other members of the Committee have sole and specific stock selection responsibilities in each of the three major regions, namely Pan-Europe, Japan and Pacific ex-Japan.

Figure 3 — Portfolio Construction



Source: Schroders

The team views fundamental stock selection as the primary driver of portfolio returns, with country selection playing a secondary role. The typical allocation of value added would be 80% stock selection and 20% country selection.

Country allocation does, however, provide a framework within which stock selection is made. Our country allocation approach reflects our belief that the prevailing

business and economic environment in each country will have an important influence on stock market performance, but also takes into account the range and quality of investment opportunities in each country, the relative valuation of small stocks between countries and relative to the local mainstream index. We seek to invest in small companies in the larger, economically and politically sound countries.

Investment process — portfolio construction (continued)

Country weighting decisions are therefore based on an assessment of: longer term economic and corporate fundamentals; valuation; and shorter term cyclical catalysts likely to affect market performance. Changes in country weightings tend to be gradual, reflecting the less liquid nature of the asset class.

Major factors that we consider include:

- Macro-economic and monetary factors likely to influence prices, e.g., the

particular point at which we are in the economic cycle, the outlook for earnings and interest rates and the probability of positive surprises

- The operating environment in each country for small companies
- The value of small stocks in each country relative to small stocks elsewhere and relative to large stocks in the same country
- The size and attractiveness of the small stock opportunity set in each country

Investment process — risk management

We use a number of risk management tools to ensure that portfolio characteristics are in line with our clients' and our own risk/return objectives.

The team is most conscious of managing stock-specific risk. This is, to a large degree, addressed through the rigorous research and due diligence that companies undergo before inclusion in our portfolios. However, even with this intensive research commitment, smaller companies are individually risky given common attributes such as reliance upon one business activity, or a limited number of clients and key management personnel. Diversification

is one of the key approaches to reducing this risk.

Sector and industry weightings are a byproduct of the stock selection process. These are monitored but not explicitly determined in isolation. The overall structure of the portfolio is reviewed using Aladdin and other quantitative techniques to ensure that industry diversification is sufficient and consistent with both our economic view and targeted tracking error. On a portfolio level, the tracking error range is monitored on an ongoing basis using both ex ante and ex post analysis.

Why Schroders for International Small Cap Equity?

- Experienced and dedicated team of small cap portfolio managers and analysts
- Supported within a highly resourced global asset management group
- A clearly defined, research driven process
- Focus on high-quality companies with above average and visible earnings growth
- Proprietary fundamental research drives both portfolio construction and alpha generation

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. Investments in small capitalization companies generally carry 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.

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

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