Schroders

Schroder Diversified Growth

Strategy Overview

Summary

Schroder Diversified Growth Strategy seeks to provide a target return of 90 Day T-Bill + 5% (p.a.) net of fees over a full economic cycle (typically 5-7 years). This is consistent with longer term returns of growth assets such as equities. The target volatility is 6-10%, significantly lower than equity volatility.[1]

[1]There can be no guarantee that any investor objectives or outcomes will be achieved.

Firm highlights

- Founded in 1804, with a strong family presence to this day
- Asset management is our main business
- Over 900 investment professionals worldwide
- Truly global reach: based in London, with offices in 29 countries
- Expertise in Fixed Income, Equities, Multi-Asset, Solutions and Alternatives

Team highlights

- The Multi-Asset team consists of over 90 investment professionals
- Research is organized around a risk premia based approach utilizing both quantitative and qualitative analysis
- The team's solutions oriented approach utilizes proprietary risk tools to drive the asset management and decision making process

Potential benefits for clients

- Seeks a stable return in a range of market conditions
- Emphasis on downside risk management to protect capital
- A high level of transparency and liquidity
- Efficiently invest in a broad mix of traditional and non traditional assets in a cost effective manner
- All delivered at an attractive fee

Investment philosophy

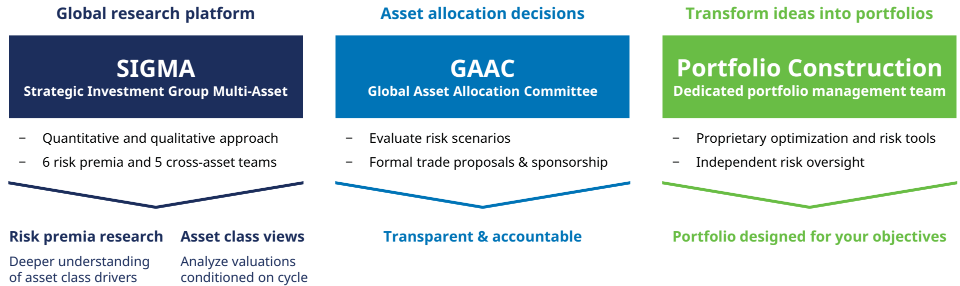
We believe in the benefits of diversification and adopt a multi-asset, risk premia based approach. This allows us to better understand the linkages across asset classes under the following five tenets:

- We have an unconstrained growth bias
- Diversification is a potential means to an end, not an end in and of itself
- The path of returns matters, not just the outcome
- All assets can be disaggregated into constituent risk premia
- Since risk premia are not stable over time, we dynamically allocate assets using valuation and cyclical analysis

Investment process

Every position must be expected to enhance returns or reduce risk to justify its place in the portfolio.

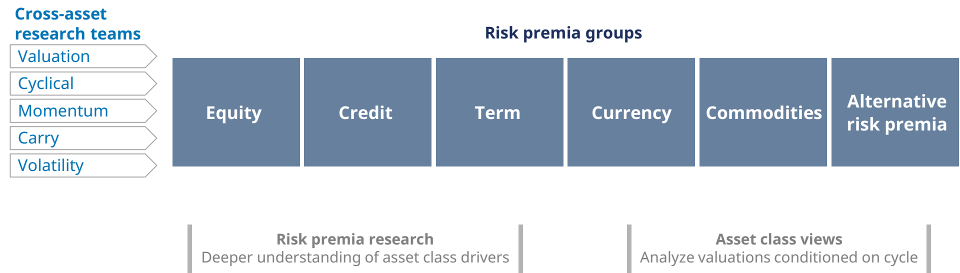
Asset allocation decisions are grounded by our three stage process.



Source: Schroders. Diagram for illustrative purposes only.

We seek the most attractive risk-adjusted opportunities by investing in a wide range of asset classes, while minimizing cross-asset class correlations. We don't invest to capture short-term market gyrations or events. Instead, we emphasize our active asset allocation process to determine, continually assess, and monitor the portfolio.

Research and analysis



Source: Schroders.

Our risk premia based research approach allows us to define where and how risk is well rewarded based on an assessment of each asset's stage in the market cycle. Our research effort is organized into five cross asset and six risk premia groups (Equities, Credit, Term, Commodities, Currency and Alternative Risk Premia). The aim of the groups is to utilize both quantitative and qualitative approaches to assess opportunities within each risk premium and come up with a medium-term return view for that premium.

The risk premia groups rely on output from five cross-asset teams and adopt a consistent framework whereby the risk premia are evaluated on the basis of valuation, momentum and cyclical factors, as well as qualitative factors.

Asset allocation

Source: Schroders.

A key component of the investment process is identifying valuation opportunities and taking account of the economic environment. These views draw on our risk premia research and the views of the Global Asset Allocation Committee (or GAAC).

The Global Asset Allocation Committee meets on a monthly basis (more often if market conditions dictate) and comprises six senior Multi-Asset portfolio managers. Our process is primarily qualitative. Each member of the Global Asset Allocation Committee responsible for identifying valuation and thematic anomalies over the short term that can be implemented as active asset allocation positions within portfolios.

The committee takes into account the scores and inputs provided by the risk premia teams, as well as the output of our Economics team's risk scenario work. The risk scenario work is important because we believe that over the short term, markets can oscillate significantly based on shifts in the probabilities of each risk scenario.

In order for any trade idea to be considered, it must be proposed by one member, seconded by another, have a strong rationale and have profit and stop loss limits. Crucially, the performance of each trade forms a part of each proposer and seconder's annual review and compensation. We believe that this degree of high conviction and accountability distinguishes our process and leads to a greater probability of success.

Portfolio construction

The next stage of our process entails taking the output of SIGMA and GAAC and constructing the portfolio. The challenge is to build a portfolio which has a strategic bias to return generating assets but which is also sufficiently flexible to adapt to different market environments. Our strength is in our ability to rank investments. We seek to harness our ranks while staying true to the return objectives of the portfolio.

We have a two-stage portfolio construction process, ranking return seeking assets and risk reducing assets separately. We rank return seeking assets according to our expectations in a central economic scenario using the output from SIGMA and the GAAC. We also rank defensive assets according to their potential to protect the portfolio. Examples of risk reducing assets typically comprise duration, currencies, alternatives, option strategies and cash.

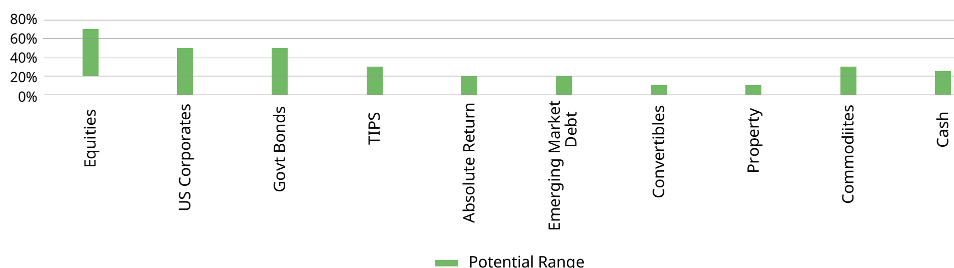
We take a forward-looking approach to risk management by incorporating the probability-weighted economic risk scenarios previously mentioned.

The final step is to blend our optimal growth and risk reducing portfolios. In doing this, we combine the qualitative assessment of the portfolio management team with the quantitative tools in our proprietary system, SMART (Schroder Multi-Asset Risk Technology).

Risk management

Risk management is central to the success of the Multi-Asset team. We believe that a pragmatic approach to risk is critical, incorporating both quantitative assessment of risk with factor-based qualitative views. Our proprietary risk management system is truly differentiated and was developed in conjunction with the investment team to ensure that it matches their needs and the evolution of the investment process. In the investment practice, the portfolio management/construction teams and the quantitative research/risk management teams combine their efforts together to jointly research, improve and further upgrade SMART. This provides seamless integration across the entire team.

Asset allocation ranges



Source: Schroders. Asset class ranges are internal guidelines and may be subject to change. Investment grade credit includes asset backed securities exposure.

Risk disclosures

All investments, domestic and foreign, involve risks including the risk of possible loss of principal. The market value of a 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, real or perceived adverse competitive industry conditions, inflation/deflation risk, mortgage and asset-backed securities risk, US Government securities risk and derivatives risk. The use of derivatives involves risks different from, or possibly greater than, the risks associated with investing directly in the underlying assets. 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- and medium-capitalization companies may involve a higher degree of risk and volatility than investments in larger, more established companies. The strategy will invest in some higher-yielding bonds (non-investment grade). The risk of default is higher with non-investment grade bonds than with investment grade bonds. Higher yielding bonds may also have an increased potential to erode your capital sum than lower yielding bonds. The strategy may invest in property funds and property investment companies. It may be difficult to deal in these investments because the underlying properties may not be readily saleable which may affect liquidity. The use of leverage may amplify gains and losses. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment.

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