Schroders

Fund Summary

Schroder Equity Opportunities Fund

Overview

The analytical approach at Schroders seeks to value every business based on its sustainable revenues, margins and return on capital. We believe share prices will necessarily track fundamental value creation in the long run, meaning the ability to sustainably generate returns through growing tangible asset value and/or dividends is paramount. The Schroder Equity Opportunities strategy (“Strategy“) utilises valuations produced using a disciplined and rigorous analytical approach in seeking to deliver a well-diversified exposure across the full market capitalisation spectrum of stocks listed in Australia/New Zealand with a significantly more attractive expected return profile than that of the broader market.

The strategy does not consider benchmark weightings in constructing the portfolio and can therefore deliver a performance profile which departs markedly from the benchmark, however, the relatively diversified nature of the portfolio means no individual stock is likely to have undue influence on overall portfolio performance. Additionally, we believe risk stems not from volatility in share prices but from the fundamental risk inherent in a business, disproportionately driven by the extent to which operating cashflows rise and fall over a business cycle and the extent of financial leverage (debt) used in the business. It is these fundamental risks and the extent to which we believe a business is undervalued which drives all portfolio positions.

The strategy has long term focus which results in relatively low levels of portfolio turnover. It is suitable as a core portfolio holding over a time frame greater than 5 years.

Key features

- Broad universe with no benchmark constraints investing in companies of all sizes avoiding the pitfalls of capitalisation weighted benchmarks which place undue emphasis on company size.
- Disciplined and structured investment approach which seeks to maximise comparability across businesses and maintain high levels of objectivity in valuations.
- Intuitive and common-sense approach to risk management which seeks to focus on the fundamental risk inherent in a business and the way it is financed rather than focusing unduly on the range of emotional and non-fundamental factors which drive day to day share prices.
- Integrated research approach where analyst research is organised along sectoral lines such that analysts maximise knowledge of how an industry operates and how businesses make money rather than focusing on business size. Our approach incorporates the use of data science, company and competitor meetings and rigorous team debate in an effort to ensure assumptions incorporated in financial models and the assessment of business and industry fundamentals are as accurate as possible.
- Experienced and dedicated investment team.

Portfolio summary*

Investment objective	To outperform the S&P/ASX 300 Accumulation Index by 3-5% before fees over the long term by investing in a broad range of companies from Australia and New Zealand
No. of securities	40-100
Stock weights	Maximum 5% of the portfolio in any one security at the time of investment, with permitted exposure up to 7% due to market movements. Maximum 5% in unlisted securities that are expected to be listed within 6 months
Expected tracking error	Not targeted
Expected turnover	30%-40%p.a.

*Investment guidelines are as at time of investment and subject to change without notice.

Investment process

The investment process is a combination of qualitative industry and business quality assessment together with quantitative financial forecasts and valuations. Key elements of the investment process are:

Stock coverage

We maintain direct coverage on all stocks within the S&P/ASX 300 Index, as well as a significant number of eligible stocks within the investment universe that are not included in this index. In our view, it is only with full coverage that the most attractive investment opportunities can be identified.

Industry and business quality assessment

We undertake a wholistic assessment of how and why a business makes money, including detailed assessment of the industry in which a business operates, the spectrum of profitability within the industry, differing business models, technological threats, entry and exit barriers, customer and supplier power to name a few. Our views on industries are calibrated for consistency across businesses within the same industry. This ensures the rationale for our assessments on a business are transparent and supported.

Financial modelling

Companies are subject to detailed financial analysis using our standardised proprietary company financial model. This model consists of a detailed profit & loss statement, cash flow statement, balance sheet and forecast assumptions. Whilst analysts retain flexibility to add additional information they believe pertinent to any company, the core elements of the financial model do not change. This design feature ensures internal consistency and eliminates potential errors. In addition, external meetings form an important part of the company assessment.

Detailed company valuation

All companies within the investment universe are subject to the same 'sum of the parts' valuation methodology where financial statements are forecast forward three to five years to reach a 'mid-cycle' or sustainable level of earnings, margins and returns. This determination of the 'mid-cycle' or 'sustainable level' is a function of the industry and business quality assessment. Using a uniform, sustainable return valuation methodology across all companies across the investment universe enables the identification of superior return opportunities when compared to current share prices.

Business and financial risk assessment

We believe the risk in any investment stems primarily from financial and operating leverage, not stock price volatility. Price volatility and the significant influence of human behaviour in allowing company valuations to move away from fair value is in large part of the inefficiency we seek to exploit. Analysts carry out an assessment of fundamental risk for every business. This is based on the historic assessment of the volatility of a company's revenue and margins and the extent to which financial leverage is employed in the capital structure.

Portfolio construction

Portfolio construction aims to maximise risk adjusted expected returns, whilst maintaining sound economic diversification. Portfolio weights are the responsibility of the Portfolio Construction Committee and are guided through the use of a portfolio optimiser which incorporates all valuation data and risk parameters collected through the stock research phase. The portfolio optimiser is a valuable tool which is consistently enhanced, however, all portfolio changes are subjected to review by the committee for reasonableness and not driven solely by quantitative measures.

Fund features

Inception date
14 December 2007

Valuation
Normally every business day

Minimum investment
$20,000

Buy/sell spread^
0.30% on application;
0.30% on redemption

Entry/exit fees
Nil

Management costs (ICR)
0.92% p.a.

Performance fee
Plus a performance fee of 15.4% p.a. of gross out performance above 2% p.a. (as calculated daily) over the S&P/ASX 300 Accumulation Index

Distributions
Usually last business day of June and December

mFund code
SCH22

^Subject to change. Refer to website for latest spreads.

What are the significant risks?

Over the long term, equities have generally outperformed other asset classes, however returns can be volatile and negative returns are possible in the short to medium term. It is therefore important to understand the risks associated with investing in the Fund.

Schroders actively assesses and manages risk at every stage of the investment process. The main risks specifically with investing in this strategy are market risk, equities risk, company risk, international investment risk, currency risk, derivatives risk, liquidity risk, counterparty risk, regulatory risk, administration risk and fund risk.

For further details about the risks of investing in this strategy please refer to the Product Disclosure Statement.

Please call Client Services on 1300 136 471
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Or visit us at www.schroders.com.au