

Schroder Global Emerging Markets Smaller Companies

Strategy Overview

Summary

The Schroder Global Emerging Markets Smaller Companies strategy looks to provide diversified exposure to the smaller companies of emerging markets. Smaller

companies within the emerging markets universe are typically under-researched, under-owned and often characterized by strong growth potential.

Firm highlights

- Founded in 1804, with a strong family presence to this day
- Asset management is our main business
- Over 740 investment professionals worldwide
- Truly global reach: based in London, with offices in over 30 locations
- Expertise in Fixed Income, Equities, Multi-Asset, Solutions, and Alternatives

Team highlights

- The strategy is co-managed by two experienced investment teams: the Global Small Cap and Emerging Markets Equities (EME) teams
- Final portfolio construction is the responsibility of Richard Sennitt, Global Small Cap Fund Manager and James Gotto, EME Fund Manager, each with over 25 years investment experience
- 'On-the-ground' fundamental research is carried out by analysts based around the world
- The strategy benefits from global infrastructure, including a central economics team and global platforms for dealing, settlement, risk, research and performance

Key features

- The strategy targets alpha generation primarily from bottom-up fundamental stock selection
- Idea generation is driven by a combination of factor screens and our global network of analysts and portfolio managers. Stocks on the focus list are assessed and selected after a thorough assessment of their fundamentals and business model
- The strategy's managers follow a proactive approach to risk management. There is no systematic style bias although low quality stocks will tend to be avoided. The portfolio will typically invest in around 60-120 stocks

Investment objective

The strategy seeks to outperform the MSCI Emerging Markets Small Cap Index (Net TR) over rolling three-year periods.¹

¹ There can be no guarantee that any investment objectives or outcomes will be achieved.

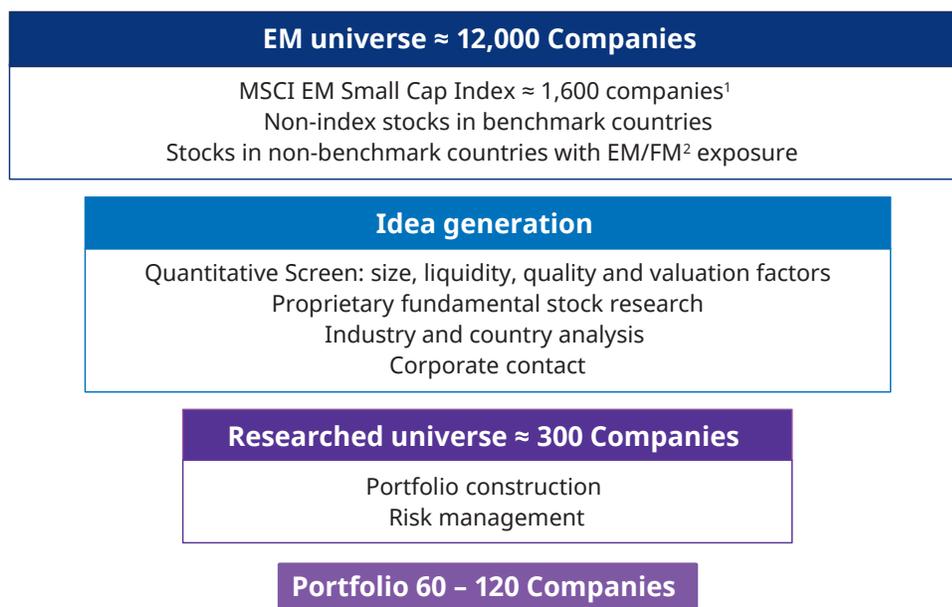
Investment philosophy

We believe that developing stock markets are inefficient and provide strong potential for adding value through active fund management. This is especially the case for generally under-researched smaller

companies. We believe that applying a systematic, disciplined approach, with a strong team culture increases our ability to add value.

Investment process — overview

Our investment process is summarized in the following diagram:



Source: Schroders. ¹Stock ideas from the wider smaller companies universe are also included in the initial exclusion screen. ²Emerging Markets and Frontier Markets.

The primary investment universe is the MSCI Emerging Markets Small Cap Index, which constitutes around 1,600 stocks, although we also aim to find good investments in medium-sized emerging companies and opportunistically in frontier market stocks. The product may also invest in smaller companies that may be listed and/or domiciled outside emerging markets, but which derive a substantial portion of their assets or revenue from emerging countries.

The investment process starts with the identification of a focus list of potential investment ideas. This is achieved by a preliminary qualitative assessment of potential small cap investments, together with liquidity, size and quality screens. We also use factor screens to help identify potential investments and we tend to target companies that have some of the following characteristics: high or improving returns with invested capital above that of the cost of capital, consistent earnings growth over time and sufficiently strong cash flow generation to sustain growth. We will also assess stocks on a range of valuation metrics. A key source of idea generation is the extensive global network of analysts and

portfolio managers within the Global Small Cap and EME teams, which are based around the world.

Comprehensive fundamental research is carried out in-house for all the stocks on the focus list. This includes select company visits to ensure a thorough understanding of the potential opportunities and risks inherent in a company's business. We seek to identify higher-quality companies offering above average and/or relatively visible earnings growth. When analyzing companies we look at factors such as growth prospects, market position, source of sustainable competitive advantage and balance sheet structure. Analysis also includes a qualitative assessment of company management and other non-financial factors such as environmental, social and corporate governance. Smaller emerging market companies tend to be inefficient and under researched and we believe fundamental bottom-up research has the potential to generate significant alpha over time.

In addition to gaining a detailed understanding of a company's business prospects and key drivers, we also seek to

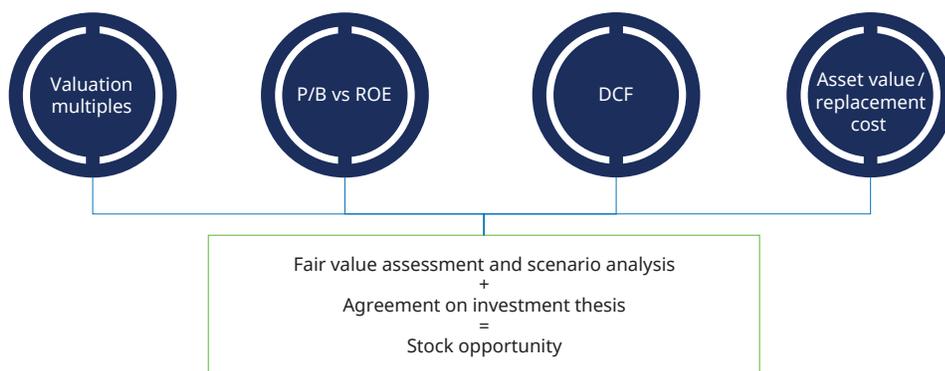
establish the extent to which the company's prospects are 'mispriced', with this degree of mispricing representing one of the key criteria for a stock's inclusion in the portfolio. We calculate this by estimating a fair value for each stock, or, simply, what we believe

a stock is worth in today's terms. There is no one valuation tool employed. Instead, it will typically encompass several measures including Discounted Cashflow (DCF), price multiple comparison and EV/EBITDA.

Value and conviction

Analyst and fund manager research are stored in our proprietary global research database, which incorporates

external research alongside our internal coverage and delivers it to Schroders' network worldwide.



Source: Schroders. For illustrative purpose only, it does not represent any recommendation to invest or disinvest in the above-mentioned sectors. P/B = Price to Book, ROE = Return on Equity, DCF = Discounted Cash Flow

Portfolio construction

Alpha generation is primarily driven by bottom-up, fundamental stock selection. Final portfolio construction is the responsibility of Richard Sennitt and James Gotto, who will work closely with the relevant analysts to identify their highest conviction views. They will also

draw on discussions with other Schroders professionals and their own judgment. Potential upside to a stock's fair value will be a key determinant of the size of a position taken, but liquidity and potential volatility will also be taken into account.

Risk management and implementation

A decision to sell a stock may be prompted by a change in an analyst's recommendation, a stock price exceeding its fair value target price, a change in the investment case or an opportunity cost perceived in comparison to an alternative investment. We also employ a stock stop-loss policy that leads to a stock discussion with a second fund manager if it underperforms by 15% relative to the local market from purchase price or high since purchase.

Country macro factors and currency views are assessed referencing the EME team's quantitative country allocation model. The relative attractiveness of a country will serve to test our conviction at the stock level and will also act as a form of portfolio risk control.

We have a proactive approach to risk management and risk constraints are in place at the stock, country and sector level.

Country and sector positioning is largely a residual of stock selection, and we will not seek to add value through portfolio-wide country and sector positioning. However, country and sector variances from benchmark are reviewed as part of our ongoing risk monitoring process.

Some of the risk constraints that trigger additional review are listed below:

- 60-120 stocks
- Cash not to exceed 10% of the value of the portfolio
- Stock weights: not to exceed 3% at time of purchase
- No country or sector weight to exceed +/- 15% versus benchmark
- Expected tracking error is 2-10%
- Stop-loss review discipline

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.

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