

## Schroder Emerging Market Debt Absolute Return

### Strategy Overview

#### Summary

The Schroder Emerging Market Debt (EMD) is an absolute return strategy managed with the aim of delivering high returns with low volatility, while maintaining a low correlation to other asset classes. The broad range of assets offered by such an under-researched EMD asset class presents

Schroders with diverse opportunities for consistent returns. A key part of our investment philosophy is that we believe we are able to add value by actively managing exposure to both external and local debt, as well as local currencies.

#### 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 27 countries
- Expertise in Fixed Income, Equities, Multi-Asset, Solutions, and Alternatives

#### Team highlights

- Highly focused, dedicated team of EMD specialists based in London
- The strategy is managed by a team of investment professionals with an average of 22 years investment experience
- Head of team has over 21 years investment experience
- The team manages over \$3.5 billion in EMD assets globally

#### Investment approach

Schroders has developed what we believe is a unique approach to portfolio construction, designed specifically for absolute return investing in the EMD universe. The team believes that asset prices fluctuate as a result of the interplay of changing economic fundamentals

and investor perceptions, and that the team's consistently-applied, unique and multifaceted research process, seeks to identify EMD investments that have high potential returns but with limited risk. Our research process is the primary source of ideas for investments.

#### Investment objective

At Schroders, we have adopted an absolute return approach to EMD (long only), with the twin objectives of seeking to achieve no negative returns in any rolling 12-month period while maximizing returns each year.<sup>1</sup>

<sup>1</sup>There can be no guarantee that any investor objective or outcome will be achieved.

# Investment philosophy

Our investment philosophy for EMD is as follows:

### Active Management

Schroders' believes that EMD is an underdeveloped, inefficient asset class in which the rewards for expert, active management can be high.

### Diversification

We believe opportunities for diversification are greater in EMD than in any other sector of the bond markets. Schroders' EMD strategy seeks to exploit all such opportunities, investing in as broad a range of assets as permitted.

### Absolute Return Focus

Following in-depth country analysis, the Team actively allocates to selected countries within the universe, across a range of different securities that they believe will offer the best risk adjusted returns.

## Investment process — overview

The team believes that its unique, multifaceted research process, consistently applied, gives it a superior ability to identify EM fixed income assets that have high potential returns (i.e. strong fundamentals) but limited downside risk (i.e. weak perception). Global conditions for EMD are discussed quarterly; a broad investment framework covering major themes in the market is then created encompassing the following:

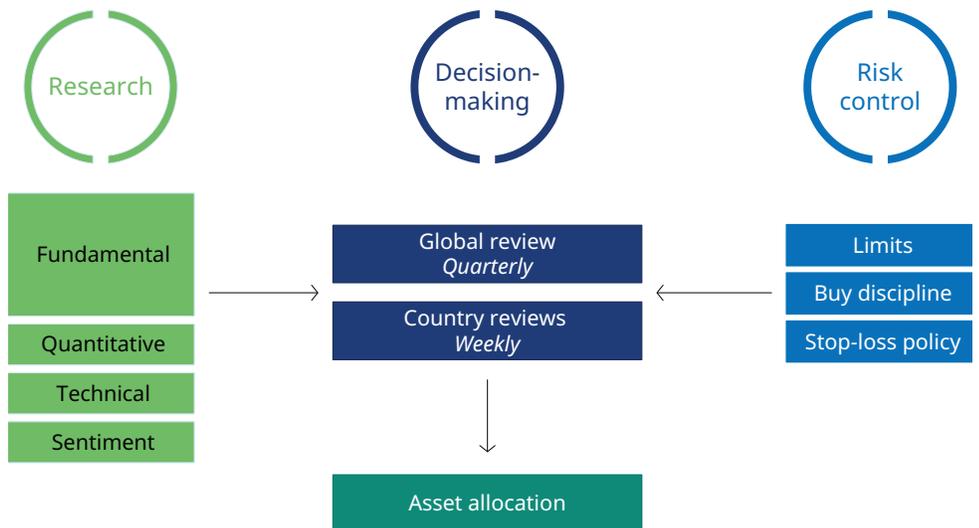
- Global and regional outlooks (Asia, Eastern Europe, Latin America, Middle East / Africa)
- Long-term sovereign, currency and corporate risk models (quantitative analysis)
- Long-term chart analysis (technical analysis)
- Global and regional sentiment (sentiment analysis)

**Country analysis** is carried out weekly and forms the core of the investment process.

Our investment universe consists of over 50 countries. Major countries are reviewed at least once a year, minor ones less frequently.

Four types of analysis are applied to each country. Countries are compared consistently (a) over time; and (b) against each other.

The EMD team's comprehensive country analysis employs four separate and independent levels of analysis: Fundamental, Quantitative, Technical and Sentiment. Fundamental analysis is the most important element. The quantitative, technical and sentiment analyses are used to support our fundamental views.



Source: Schroders.

## Investment process — overview (continued)

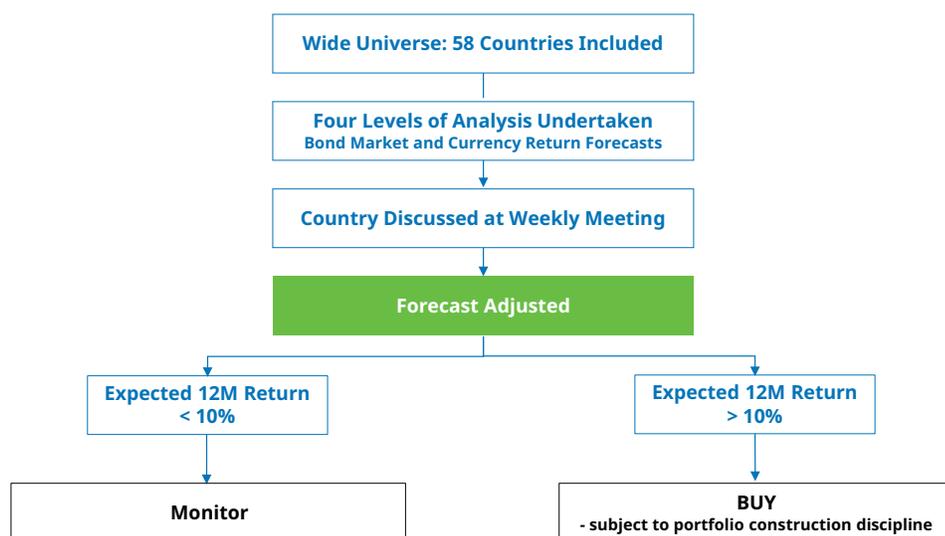
**1 Fundamental Analysis (Biggest contribution to decision making – Typically 70%)** Each week the country analyst prepares a report on a particular country which focuses on political, economic and market developments, as well as outlook. Such a report frequently follows a country research visit. Politics is inevitably the most qualitative element and focuses on risks and opportunities. Economic outlooks and market forecasts for external and local debt and the exchange rate, are also prepared. These forecasts are made on both a three- and 12-month horizon and are the central output of this analysis.

**2 Quantitative Analysis**  
A country risk model is updated for all countries in our investment universe at the start of each quarter and whenever an individual country is reviewed. The model aims to provide an objective input into our inevitably more subjective fundamental analysis. Countries are scored on a scale from -12 to +12 reflecting the country's risk based on six key factors:

- Growth Dynamics
- Hot money Indicator
- Credit Cycle
- Competitiveness
- Sovereign External Liquidity
- Banking System External Liquidity

**3 Technical Analysis (Chart Analysis)**  
We make extensive use of chart analysis: we think the volatile and frequently momentum-driven nature of many Emerging Markets makes both long- and short-term chart analysis of price patterns a valuable tool.

**4 Sentiment Analysis**  
Sentiment Analysis attempts to discover how other market participants are positioned and / or are likely to change their positions in the future. Accurate readings can support our own assessment of risk / opportunity in markets.



Source: Schroders.

## Risk management

**Schroders' EMD strategies focus on high absolute returns as the primary goal. This ensures that the risk of loss for every security is analyzed thoroughly, using fundamental, quantitative and technical analysis, before any purchase is considered.**

- Schroders employs strict diversification rules
- Schroders avoids the common investment practice of 'averaging down'. (Sentiment shifts can often drive asset prices quickly to levels far beyond those commonly perceived as 'fair value'; in such circumstances, large 'losing' positions take up a disproportionate amount of management time)
- Chart analysis is extensively employed to try to optimize buy / sell prices
- We seek to protect against downside volatility through a disciplined use of cash when appropriate
- We do not employ any limits on credit quality
- Use of a portfolio stop-loss discipline
- The risk limits are set so that they could be expected to affect the investment process over the course of a market cycle

## Why Schroders for Emerging Market Debt?

- The absolute return focus of our investment style, with its twin aims of participating in the attractive return prospects available in the asset class while seeking not to lose money
- The flexibility of our investment management style enables us to compare and potentially take advantage of the opportunities available in all emerging markets and sectors
- A comprehensive and proven investment process which uses four types of analysis: fundamental, quantitative, technical and sentiment
- A highly extensive country visit program, in which the portfolio managers / analysts regularly carry out in-depth visits to all relevant countries in their respective regions, which they have been covering in significant depth for many years
- A team-based approach with highly experienced portfolio managers / analysts who have worked together in a variety of market environments over many years
- An investment and risk process specifically designed to optimize risk adjusted returns from the asset class

## Risk disclosures

### **Principal Risks. It is possible to lose money on an investment in the strategy.**

The strategy will be affected by the investment decisions, techniques, and risk analyses of the strategy's investment team, and there is no guarantee that the strategy will achieve its investment objective. The values of the investments held by the strategy may fluctuate in response to actual or perceived issuer, political, market, and economic factors influencing the financial markets generally, or relevant industries or sectors within them. Fluctuations may be more pronounced if the strategy invests substantially in one country or group of countries or in companies with smaller market capitalizations. These risks exist to a greater extent in emerging markets than in developed markets.

Investments in small and medium 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. The market value of the portfolio may decline as a result of a number of other factors, including interest rate risk, credit risk, inflation/deflation risk, mortgage and asset-backed securities risk, U.S. Government securities risk, foreign investment risk, currency risk, derivatives risk, leverage risk and liquidity risk.

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

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