Schroders

Schroder Global Sustainable Growth

Strategy Overview

Summary

Sustainability, at its heart, concerns the durability of growth and returns. It's what makes a great company stay great. This strategy seeks to invest in truly responsible companies that are managed for the long term, with stakeholder interests at heart. We believe that companies with these qualities give them the ability to consistently deliver outsized growth over time. We also believe that the market is often short-term focused and persistently underestimates the long term growth of these quality businesses, providing a rich source of alpha for patient investors.[1]

[1]There is no guarantee the investment strategy will lead to enhanced returns.

Firm highlights

- Founded in 1804, with a strong family presence to this day
- Asset management is our main business
- Over 885 investment professionals worldwide
- Truly global reach: based in London, with offices in over 37 locations
- Expertise in Fixed Income, Equities, Multi-Asset, Solutions, and Alternatives
- An industry leader in sustainability

Team highlights

- An experienced team comprised of members of both our Global Equities team and industry-leading Sustainability team drawing from an extensive and differentiated research platform
- Research efforts supported by approximately 100 local research analysts, team of Global Sector Specialists (GSS), ESG specialists and innovative Data Insights Unit

Investment objective

Global Sustainable Growth aims to provide capital growth by investing in equity securities of companies worldwide which meet our sustainability criteria. The strategy is benchmark unconstrained, however, performance is compared against the MSCI ACWI Index which best represents the strategy's investment opportunity set.[2]

[2]There is no guarantee these objectives will be achieved.

Key features

- A concentrated, unconstrained global growth portfolio of 30-50 sustainable companies seeking to deliver outsized long term returns
- Proprietary 'SQ' framework to systematically assess companies' relationships with stakeholders and sustainability characteristics
- Excludes stocks with material exposure to alcohol, tobacco, controversial and conventional weapons, gambling, adult entertainment, climate change (tar sands and thermal coal), high interest rate lending and human embryonic cloning.
- Patient capital approach targeting 3-5 year holding period and long-term growth
- Targeted engagement focused on promoting more sustainable business practices and changing corporate behavior

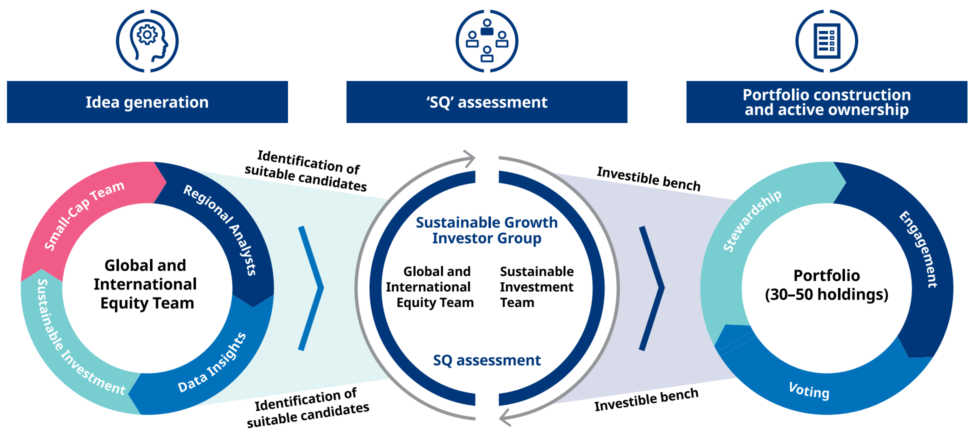
All data and statistics as of June 30, 2021.

Investment philosophy

We believe that:

- Companies that are run for the long-term, taking account of their impact on ALL stakeholders will be able to sustain supernormal growth and returns
- Companies with strong sustainability characteristics achieve better operational performance can maintain long-term structural growth
- Markets are typically poor at valuing long-term growth and non-financial factors

Investment process



Source: Schroders. For illustrative purposes only.

Step 1: Idea generation

Schroders' GSSs are the primary source of idea generation, focusing on our local analysts' highest ranked stocks as well as ideas generated from their own analysis and insights. Irrespective of idea source, the GSS assesses the modelling, analysis and ESG assessment of the regional teams based on an independent view of growth- and risk- drivers. The GSS team reframes the investment recommendations relative to global sector dynamics and reflecting a global opportunity set. The investment team also uses a proprietary quantitative screen aligned to the team's investment approach to highlight potential investment opportunities. In addition, ideas arising from thematic research and from inter-actions and engagement with company management by Schroders' Sustainability team can also provide a source of new ideas.

The output harnessed at this stage of the process comprises detailed financial analysis including estimates of long term growth, and a comprehensive analysis of fundamental risk which incorporates a wide range of financial and non-financial risk factors from operational and financial, to strategic and ESG. The view on risk will be informed by the GSSs' financial modelling, analysis and insight from Schroder's ESG team, and meetings with company management which are usually attended collectively by the relevant regional equity analysts, These stock recommendations will be characterized by a positive growth gap underpinning an expectation of share price outperformance and a detailed assessment of fundamental risk, including specific ESG analysis.

Step 2: Stock selection

Based on the ideas emanating from Step 1 of the process, the Sustainable Growth Investor Group, a small sub-committee comprising the strategy's two portfolio managers, a senior member of the Global & International Equity team and three members of the Sustainability Team meet to discuss the ideas being considered for inclusion by the two PMs. This group meets monthly with a primary aim to offer a proprietary and holistic assessment of a business's long-term sustainability. In addition, this group will review existing holdings, corporate performance (financial and non-financial) and set objectives for longer term engagement. These discussions are anchored around stakeholder relationships and how they feed into the long-term quality and durability of a company's business model and from that the degree to which this will support long term earnings growth. The team use its proprietary Sustainability Quotient 'SQ' framework developed to ensure companies sustainability characteristics are assessed and evaluated in a systematic way. This framework shapes further discussion and analysis. The conclusion of this process seeks to deliver a list of approximately 60-80 stocks that meet a high bar for inclusion within the portfolio.

Investment process (continued)

Step 3: Portfolio construction and risk control

Using the short-listed stocks, portfolio construction is undertaken by our Fund Managers. A stock's upside potential, downside risk (including ESG factors) and level of conviction around the presented investment thesis determines the position size of each stock. The fund managers aim to hold somewhere between 30-50 stocks within the portfolio. Stocks are bought with anticipation that these will be held for the long term, reflecting the longer term growth trajectory that has been identified.

Stocks will be held until forward looking growth estimates have been fully discounted within consensus expectations, or where better opportunities have been identified. A material change in the thesis, or in the sustainability characteristics, will result in a review of our position. Our country and sector allocation are purely a by-product of our bottom-up stock selection process but may be controlled for risk management purposes. The team adopts a "patient capital" approach for the strategy, anticipating portfolio turnover less than 25% per annum, and seeks to maximize risk-adjusted returns over the investment cycle. The strategy will invest across the market cap spectrum with a minimum market capitalization of $200 million and is managed without benchmark constraints.[3]

[3]The investment process may not achieve its intended goal.

Proprietary Sustainability Quotient (SQ) assessment

The team believes that long-term value creation is realized when a company has an exceptional business model that can be maintained over a long time horizon. This necessitates that the firm is run with a long-term view, with consideration of its impact on and relationship with a wide range of stakeholders. The team use its proprietary Sustainability Quotient 'SQ' framework to systematically evaluate companies' sustainability characteristics. Recognizing that the conception of 'Sustainability' goes well beyond conventional ESG analysis and third-party scoring, the 'SQ' analysis aims to provide a more thoughtful and holistic assessment of the durability of a company's business model and the sustainability of its growth, determined by the impact of its operations and policies on its broader set of stakeholders. This analysis focuses on the areas considered material to the future prospects of the specific company, and takes a qualitative rather than quantitative approach.

The 'SQ' analysis employs a wide range of data and resources, and invariably requires further interactions with the company concerned, enabling the group to both clarify aspects of company policy and request additional data and, more importantly, to assess a company's genuine commitment to the cause of sustainability rather than just disclosure levels. This also serves to highlight areas for potential engagement. Once an idea has been processed through the 'SQ' framework, the Sustainable Growth Investor Group devote time to an in-depth discussion of the results, challenging specific points, highlighting areas for further research or engagement, and ultimately deciding whether the company truly meets the high bar to be considered one of the world's best 'sustainable growers'. This proprietary analytical ESG tool is designed to enhance the research process but do not guarantee favorable results.

Engagement

As long-term shareholders, we regard ourselves as active owners of the companies in which we invest. We therefore attach a high degree of importance to engagement, believing it can serve to improve shareholder returns and broader societal outcomes, even from a relatively high base.

While the particular philosophy of the strategy and incorporation of the SQ assessment creates a significant bias within the portfolio to businesses that are well-managed, there are inevitably areas identified where it is considered a company can "do better".

As described, the SQ analysis is used to identify these areas and target engagements.

Engagement priorities are determined by the Sustainable Growth Investor Group and progress reported routinely as part of the strategy's standard reporting output.

Risk management

Risk management is a high priority at Schroders and we believe that for an investment process to be effective and provide strong long-term returns it must have in place a comprehensive system of risk management procedures and tools. Our Global Equities team has developed an innovative and proprietary forward-looking risk framework in which our team of Global Sector Specialists maintain formal risk scores for all of the stocks under their remit. The scores are based on rigorous fundamental analysis and weighted according to the risk factors that exert the greatest influence on share prices. The fundamental risk scores are an integral part of the way we systematically appraise risk and determine position sizes in the portfolio ensuring that our risk is consistently aligned with the holdings where we have the greatest conviction and upside. We have also developed in-house a powerful on-line tool for monitoring risk, called Portfolio Risk Investment Strategy Manager (PRISM), which enables the fund manager to analyze risk at various levels and from different perspectives. As well as PRISM, we utilize our Schroder Investment Risk Exception Notification system (SIREN) which monitors adherence to the parameters of the investment framework of our portfolios. SIREN is maintained by our dedicated Investment Risk Team. In addition, the Head of Equities formally reviews the performance of all portfolios on a quarterly basis, identifying any significant deviations from median performance and analyzing ex ante risk. The proprietary analytical Risk Management tools and methods mentioned are designed to enhance the risk evaluation process but do not guarantee the abatement of all risk.

Why Schroders for Global Sustainable Growth?

- **Experienced fund management team** supported by an extensive and truly differentiated research platform
- **Industry leading Sustainability Team**
- **Focused portfolio** of truly sustainable companies managed for durable long-term growth
- **Distinctive philosophy** focused on aligning stakeholder values to deliver value
- **Proprietary risk framework** focused on seeking to achieve better downside protection and performance consistency
- **Targeted engagement** focused on improving long term returns

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.

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