

## Schroder Global Climate Change

### Strategy Overview

#### Summary

Schroders' Global Climate Change is an actively managed thematic global equity strategy that seeks to invest in companies that are positively impacted, or likely to benefit, from efforts to mitigate or adapt to climate change. What is distinctive about our approach is our appreciation that climate change will have far-reaching consequences for companies across a broad range of industries—not just companies purely involved in

renewable energy, energy efficiency and environmental resources. While the path to a low-carbon economy is predictable, we do not believe it is well understood by the equity market—representing a potentially significant alpha generation opportunity.

Within the broad theme we have identified five sub-themes within which we believe climate change investment opportunities are most apparent.

#### Five key themes within a 'predictable revolution'

Theme	Industry Examples
 <b>Sustainable Transport</b>	Railroad infrastructure, electric, hybrid and natural gas transport
 <b>Environmental Resources</b>	Water infrastructure, agricultural productivity and forestry
 <b>Clean Energy</b>	Nuclear power, renewable energy, grid infrastructure
 <b>Low Carbon</b>	Low-Carbon Leader - Low-carbon disruptors, low-carbon industry leaders
 <b>Energy Efficiency</b>	Lightweight materials, lighting, video conferencing, smart grid

#### 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 over 30 locations
- Expertise in Fixed Income, Equities, Multi-Asset, Solutions, and Alternatives

#### Team highlights

- Combined investment experience of over 70 years
- One portfolio manager and two Global Sector Specialists with specific expertise in sectors heavily impacted by climate change (industrials, materials, autos and utilities)
- Two Climate Change Specialists who provide legislative and technical insight around climate change
- Supported by 6 Global Sector Specialists who are members of Schroders' Global and International Equity team and a further 90 locally-based equity analysts and specialist teams of small cap, energy, commodities and agriculture investors

<sup>1</sup>Numbers and experience include Katherine Davidson who holds dual responsibility: Global Sustainability Specialist and GSS covering the autos and telecoms sectors.

## Key features

---

- Innovative approach to climate change investment capturing implications across a broad range of sectors, geographies and across the market cap spectrum
- High conviction portfolio of 40-60 stocks driven by robust bottom-up investment process
- Proprietary climate change universe and fundamental research, with ESG evaluation integrated within our analysis
- Excludes companies that report significant ownership of fossil fuel reserves (e.g. oil, coal, gas, tar-sands, shale-gas)

## Investment objective

---

To provide capital growth, primarily through investment in equity securities which will benefit from efforts to accommodate the impact of climate change.

The portfolio is unconstrained but we believe that over time companies well positioned with regard to climate change can significantly outperform broad world indices.

## Investment philosophy

---

### We believe that:

- Companies that recognize the threats and embrace the challenges early, or that form part of the solution to the problems linked to climate change, will ultimately outperform the broader market
  - Stocks which deliver positive earnings surprise should produce strong and consistent outperformance over time
  - In-depth fundamental research is the most reliable means of identifying such companies and appraising future earnings growth relative to market expectations
- Material differences between underlying company fundamentals and market estimates exist due to three persistent market inefficiencies:
    - 1 Markets over-reacting to short-term news flow
    - 2 Markets extrapolating historic growth and failing to correctly interpret catalysts that change the trajectory of growth
    - 3 Markets failing to look far enough ahead when appraising the earnings power of companies

## Investment process — overview

---

Our Global Climate Change Equity strategy utilizes a bottom-up, fundamental research driven approach. Stock selection is the primary driver of performance, with proprietary company research key to our investment process.

**Establishing the Global Investment and Climate Change Universe:** Our first task in the process of stock selection is to determine a universe of companies from the global investment universe whose long-term business outlook, in our opinion, is significantly impacted by efforts to mitigate or adapt to climate change. Given rapidly changing business impacts, it is not possible to have simple percentage rules for the amount that a company is positively or negatively impacted by climate change. Therefore the team assesses relevance based on the factors below. The overarching principle is that climate change must have a significant impact on the long-term business outlook for a stock to be included. A company's management and strategy is assessed on the following basis:

- Is there significant direct industry exposure to climate change trends?
- What proportion of business segments potentially are exposed to climate change trends?
- Is investment and R&D spending in the relevant area significant?
- How does the product portfolio position the company for the future effects of climate change?

When assessing the significance of climate change on the long-term business outlook, we consider the impact of all these factors on expected revenue growth, operating margin and capital intensity of the company. Stocks in the universe are then classified as beneficiaries of either adaptation to, or mitigation of, the effects of climate change.

## Investment process — overview (continued)

### Constructing a 'Best Ideas' Portfolio:

From the climate change database, existing best ideas from the Global Sector Specialists and regional small cap team are automatically selected as best ideas for the strategy. Additional stock ideas, either generated by the team or by other sector strategies, are researched from the universe by the portfolio managers. This produces a pool of 50-100 best ideas from which the portfolio is constructed.

The climate change strategy's investment criteria and philosophy are then applied and used to filter the best ideas list, resulting in a high conviction portfolio of 40-60 stocks. The portfolio is constructed without strict regard to any benchmark weights, with position sizes reflecting the portfolio managers' risk adjusted return expectations and fundamental conviction

levels. Stocks with a higher relative upside, lower fundamental risk profile and higher liquidity will receive higher active weights in the portfolio.

**Sell Discipline:** Sell decisions occur when climate change ceases to be a significant driver for the business outlook, the fundamental investment case deteriorates and our view changes, the growth gap turns negative (i.e. our earnings estimates move below consensus), the team identifies opportunities often offering better risk adjusted returns or the growth gap has closed and valuation is no longer compelling. Any of these factors could precipitate a sell decision, but for this strategy the only "mandatory" trigger to sell is if climate change ceases to be a driver of the business outlook.

## A well-resourced and experienced global team

The Global Climate Change strategy is managed by lead portfolio manager Simon Webber. He is supported by Global Sector Specialists Dan McFetrich, Owen Scarrott and one dedicated equity analyst Isabella Hervey-Bathurst. The team has specific expertise in the sectors most heavily impacted by climate change—industrials, technology, energy, utilities, materials and autos. In addition the managers draw upon the expertise of six additional Global Sector Specialists who are members of Schroders Global and International Equity team.

The team also benefits from two Climate Change Specialists who provide legislative and technical insight around climate change and its potential impact on companies within affected industries. A further 90 experienced investors consisting of locally-based equity analysts and specialist teams of small cap, energy, commodities and agriculture investors provide research input.

The following chart outlines those people significantly involved in Schroders' Global Climate Change Equity strategy:

Name	Responsibility	Industry experience (years)
Simon Webber	Portfolio Manager	18
Dan McFetrich	Global Sector Specialist – Industrials	17
Owen Scarrott	Global Sector Specialist – Materials, Energy	8
Isabella Hervey-Bathurst	Equity Analyst	5
Andrew Howard	Climate Change Specialist	21
Marc Hassler	Climate Change Specialist	>1

### Global and International Equity Team

Portfolio Managers (2 additional)      Global Sector Specialists (6)      Product Managers (2)



Source: Schroders, as of June 30, 2018

## Risk management

---

We utilize a comprehensive and well-designed approach to risk management utilizing a wide range of tools available which enable our portfolio managers to optimize their decisions accordingly. Our Global and International Equity team has developed a proprietary risk scoring system for all 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. This system serves as a useful tool to characterize the risk profile of each stock that we own and help determine the appropriate position size. We have also developed a powerful on-line tool for monitoring risk called Portfolio Risk Investment Strategy Manager (PRISM), which enables the portfolio manager to analyze risk at various levels across multiple perspectives and monitor factor exposures.

## Why Schroders for Global Climate Change?

---

- **A unique approach:** Innovative approach to climate change investment, capturing opportunities across a broad range of sectors and across the market spectrum, and delivered in a high conviction portfolio
- **Depth of resources and global expertise:** The Climate Change team is well resourced, with over 90 experienced investors located globally providing fundamental research, industry insights and regulatory expertise
- **Experience:** Schroders has long recognized the significant implications of climate change on businesses and has managed the climate change strategy since 2007
- **A disciplined process:** Strong research capabilities backed by robust risk management and screening tools applied in a consistent manner and focused on achieving consistent performance

## 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.

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

This document does not constitute an offer to sell or any solicitation of any offer to buy securities or any other instrument described in this document. The information and opinions contained in this document have been obtained from sources we consider to be reliable. No responsibility can be accepted for errors of facts obtained from third parties. Reliance should not be placed on the views and information in the document when making individual investment and/or strategic decisions. Schroders has expressed its own views and opinions in this document and these may change. Past performance is no guarantee of future results. The value of investments can go down as well as up and is not guaranteed. Sectors/securities illustrate examples of types of sectors/securities in which the strategy invested and may not be representative of the strategy's current or future investments. Portfolio sectors/securities and allocations are subject to change at any time and should not be viewed as a recommendation to buy/sell. The opinions stated in this document include some forecasted views. We believe that we are basing our expectations and beliefs on reasonable assumptions within the bounds of what we currently know. However, there is no guarantee that any forecasts or opinions will be realized. Schroder Investment Management North America Inc. (SIMNA Inc.) is registered as an investment adviser with the US Securities and Exchange Commission and as a Portfolio Manager with the securities regulatory authorities in Alberta, British Columbia, Manitoba, Nova Scotia, Ontario, Quebec and Saskatchewan. It provides asset management products and services to clients in the United States and Canada. Schroder Fund Advisors LLC (SFA) markets certain investment vehicles for which SIMNA Inc. is an investment adviser. SFA is a wholly-owned subsidiary of SIMNA Inc. and is registered as a limited purpose broker-dealer with the Financial Industry Regulatory Authority and as an Exempt Market Dealer with the securities regulatory authorities in Alberta, British Columbia, Manitoba, New Brunswick, Nova Scotia, Ontario, Quebec, Saskatchewan, Newfoundland and Labrador. This document does not purport to provide investment advice and the information contained in this material is for informational purposes and not to engage in a trading activities. It does not purport to describe the business or affairs of any issuer and is not being provided for delivery to or review by any prospective purchaser so as to assist the prospective purchaser to make an investment decision in respect of securities being sold in a distribution. SIMNA Inc. and SFA are indirect, wholly-owned subsidiaries of Schroders plc, a UK public company with shares listed on the London Stock Exchange. Further information about Schroders can be found at [www.schroders.com/us](http://www.schroders.com/us) or [www.schroders.com/ca](http://www.schroders.com/ca). Schroder Investment Management North America Inc. 7 Bryant Park, New York, NY, 10018-3706, (212) 641-3800.

4P-GCC