

Schroders

Schroder Global Value Fund (Hedged)

Wholesale Class

Monthly Report – October 2019

Overview

Fund objective

To generate long-term returns before fees in excess of traditional capitalisation weighted global equity indices by investing in a diversified portfolio of equity and equity related securities of companies worldwide excluding Australia using a Value based investment strategy. The impact of currency volatility on Fund performance is minimised through currency hedges.

Key features

- Value style – attractively priced companies with strong fundamentals outperform in the long run.
- Embracing breadth – exploiting opportunities from more than 15,000 stocks globally.
- Bottom-up, index unconstrained investing – minimal sector, region or size constraints maximises the potential return and minimises dead money allocated to expensive stocks simply to satisfy inefficient index constraints.
- Focus on risk management and portfolio construction – a highly diversified portfolio minimises stock specific risk whilst retaining a high degree of conviction.

Performance to 31 October 2019

Relative to MSCI All Country World ex Australia Index (Hedged)

Performance – Calendar years

Total returns (AUD %)	2019 YTD	2018	2017	2016	2015	2014	2013	2012	2011
Fund (Gross)	+12.45	-10.12	+17.12	+14.42	-0.32	+10.56	+32.34	+18.24	-7.58
MSCI AC World ex Aus (Hedged)	+18.81	-8.03	+21.00	+10.03	+2.68	+11.60	+28.23	+18.46	-3.34
Excess (Gross)	-6.36	-2.09	-3.88	+4.39	-3.00	-1.04	+4.11	-0.22	-4.24
Fund (Net)	+11.54	-10.99	+15.99	+13.31	-1.29	+9.49	+31.05	+17.09	-8.48
Excess (Net)	-7.27	-2.96	-5.02	+3.28	-3.97	-2.12	+2.83	-1.37	-5.14

Performance – Rolling periods

Total returns (AUD %)	1 month	3 mths	FYTD	1 Year	3 Years p.a.	5 Years p.a.	10 Years p.a.	SI p.a.*	SI cum*
Fund (Gross)	+2.55	+1.85	+1.29	+6.06	+8.28	+6.41	+10.70	+7.86	+192.38
MSCI AC World ex Aus (Hedged)	+1.96	+1.97	+2.84	+11.21	+11.50	+8.84	+11.55	+8.08	+200.60
Excess (Gross)	+0.59	-0.11	-1.55	-5.15	-3.22	-2.42	-0.85	-0.21	-8.22
Fund (Net)	+2.47	+1.60	+0.96	+5.03	+7.23	+5.38	+9.62	+6.83	+155.10
Excess (Net)	+0.51	-0.36	-1.88	-6.18	-4.27	-3.46	-1.93	-1.24	-45.50

Relative to MSCI World ex Australia Index (Hedged)

Performance – Calendar year

Total returns (AUD %)	2019 YTD	2018	2017	2016	2015	2014	2013	2012	2011
Fund (Gross)	+12.45	-10.12	+17.12	+14.42	-0.32	+10.56	+32.34	+18.24	-7.58
MSCI World ex Australia (Hedged)	+20.15	-7.58	+20.02	+10.34	+3.83	+12.55	+32.26	+18.71	-1.91
Excess (Gross)	-7.69	-2.54	-2.90	+4.08	-4.15	-1.99	+0.08	-0.47	-5.68
Fund (Net)	+11.54	-10.99	+15.99	+13.31	-1.29	+9.49	+31.05	+17.09	-8.48
Excess (Net)	-8.60	-3.41	-4.04	+2.97	-5.12	-3.06	-1.20	-1.62	-6.57

Performance – Rolling periods

Total returns (AUD %)	1 month	3 mths	FYTD	1 Year	3 Years p.a.	5 Years p.a.	10 Years p.a.	SI p.a.*	SI cum*
Fund (Gross)	+2.55	+1.85	+1.29	+6.06	+8.28	+6.41	+10.70	+7.86	+192.38
MSCI World ex Australia (Hedged)	+1.85	+2.05	+3.21	+11.47	+12.12	+9.41	+12.40	+8.34	+211.34
Excess (Gross)	+0.70	-0.20	-1.92	-5.41	-3.84	-3.00	-1.70	-0.48	-18.96
Fund (Net)	+2.47	+1.60	+0.96	+5.03	+7.23	+5.38	+9.62	+6.83	+155.10
Excess (Net)	+0.62	-0.45	-2.25	-6.44	-4.89	-4.03	-2.78	-1.51	-56.23

Past performance is not a reliable indicator of future performance. The difference between the fund and benchmark returns may not equal stated excess returns due to rounding. *Since inception from 1 September 2005.

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Market and fund commentary

Market review

Global equities advanced during October by 2.7% (in USD terms), taking its year-to-date gains to 19.4%. Investors welcomed signs of an easing in geopolitical tensions, with risk assets generally outperforming traditional safe havens. Emerging market equities outperformed developed market equities for the first time since January, in part helped by a 2% decline in the US dollar.

From a geopolitical perspective, the US and Chinese governments edged closer to agreeing a partial trade deal, while the UK once again edged back from the precipice of a no-deal Brexit. Global central banks reiterated their ongoing support and the US Federal Reserve (Fed) cut interest rates for the third time this year (by 25bps).

Despite the improvement in sentiment, investors maintained their preference for Quality Growth stocks, as evidenced by the strength of many US technology stocks. The MSCI ACWI Value index moderately lagged the broader benchmark, unable to double down on a strong September, although there were encouraging signs of a modest broadening in market participation. In particular, there was evidence of a value recovery in areas such as healthcare, autos and industrials. Conversely, utilities, energy and consumer staples sectors were significantly weaker.

Fund commentary

Against this backdrop, QEP Global Value Fund (Hedged) outperformed its reference indices, primarily driven by its positioning in the health care, consumer and industrials sectors whilst avoiding underperforming utilities. From a regional perspective, stock selection across Japan was particularly strong, across all sectors.

Within the health care sector, positions in attractively valued and high quality pharmaceutical names across the US and Japan contributed positively as the overall sector was the standout performer of the month having lagged behind of late.

Within consumer staples, the fund benefitted from lower than index positions in less attractively valued stocks across the US and Continental Europe. In particular, avoiding the more expensive food & drink and home products areas was beneficial as they were some of the main laggards through October as investors preferred riskier assets. Within consumer discretionary, holdings in export focused industries e.g. Japanese autos, proved beneficial as the sentiment towards US-China trade talks improved. Holdings in UK home builders also contributed positively as the UK once again edged back from the precipice of a no-deal Brexit.

Within industrials, our longstanding aversion to Boeing was a tailwind. Meanwhile, positions in higher quality UK and US machinery and French electrical equipment also contributed positively. Elsewhere, our longstanding aversion to US utilities, an area of the market which we deem overpriced given their weak fundamentals (high leverage), was positive as investors moved on from the perceived safe haven assets.

Partially offsetting the fund's strong performance in October, not holding Apple, on both valuation and quality grounds was a headwind as the US hardware giant posted strong results.

We invest in companies using our Value models, tailoring each to identify the most attractive opportunities. We build the overall strategy to have a broad exposure across four models: dividends and cash flows constitute our more defensive value models whilst earnings and assets reflect our deeper value assessment.

Market and fund commentary (continued)

Our deeper value opportunities make up over half of the strategy today and is where we have built our exposure within financials, resources and currently out-of-favour areas of consumer discretionary and industrials (such as UK homebuilders, Asian autos, machinery and transport companies). Within resources, we retain a preference for miners and oil exploration & production companies globally, as well as larger integrated oil companies, except for the US where we feel valuations are now unattractive. Elsewhere, we are exploiting a wide range of options across the quality spectrum within financials. Higher expected return, but riskier prospects are evident in European and emerging market banks, where we are seeing selective improvement in asset quality. At the other end of the spectrum, we have broad exposure to high quality companies trading on attractive valuations, such as life & health insurers within the US and, building positions, in Singaporean banks.

Exposure to our defensive value models focuses on strong cash flows, which support sustainable, high dividend yields. Here we retain our conviction positions across health care (predominantly pharmaceutical companies in Europe, the US and Japan), telecoms (across Europe and Asia) and attractively priced, mature parts of technology and industrials. These exposures are spread across Europe, the US and emerging markets, with a broad spread at the industry level.

Regionally, we are underweight the US in favour of Europe and Japan, as well as emerging markets. Our exposure to Japan and emerging markets is built up more from our deeper value positions. For our positions in Europe and the US, we currently find a broadly even split across both deeper and defensive value opportunities.

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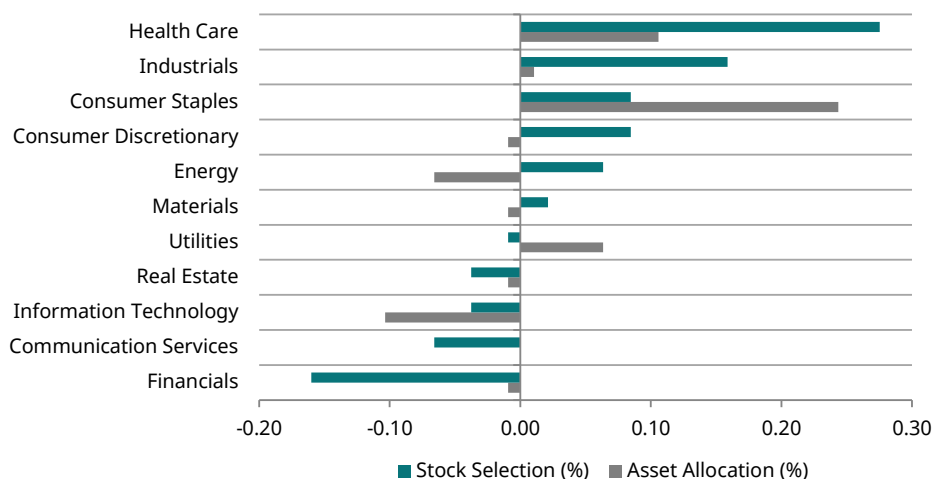
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Attribution against MSCI All Country World ex Australia Index (Local)

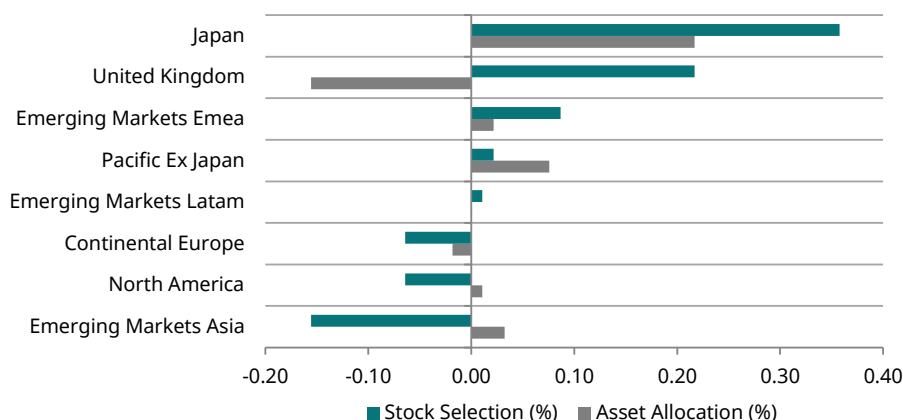
Sector

Oct 2019



Region

Oct 2019



The attribution analysis shown above is intended to provide an indicative summary of the contributions to relative performance. The information is generated using Factset, a multi-currency performance analytical system. The total estimated sector and region performance attribution is reconciled with and adjusted to the reported official relative return.

Fund details as at 31 October 2019

Fund size	A\$56m
APIR code	SCH0032AU
Redemption price	1.0637
Inception date	1 September 2005
Buy/Sell spread	0.23%/0.18%
Distribution frequency	Normally twice yearly – June and Dec
Management costs	0.98%

Fund characteristics as at 31 October 2019

	Fund	MSCI All Country World ex Australia Index
Active share	83.2%	N/A
Number of stocks	623	2,785
Carbon intensity (CO2 t/M\$ sales)	137.9	190.2

Source: Schroders.

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Fund weights versus MSCI All Country World ex Australia Index

Sector	Fund (%)	Index (%)	Active Weights
As at	14.2	9.8	
31 Oct 2019	15.2	11.4	
	12.9	10.4	Banks 4.4
	7.3	5.4	Health Care 3.8
	6.0	4.4	Industrials 2.5
	4.1	3.0	Energy 1.9
	6.9	6.4	Materials 1.6
	9.0	9.3	Real Estate 1.1
	9.7	11.0	Insurance & Asset Manager 0.5
	1.0	3.4	Communication Services -0.3
	10.8	17.0	Consumer Discretionary -1.3
	1.1	8.6	Utilities -2.4
	1.9	0.0	Information Technology -6.2
			Consumer Staples -7.5
			Cash 1.9

Region	Fund (%)	Index (%)	Active Weights
As at	14.9	7.6	
31 Oct 2019	5.8	1.6	
	18.4	14.3	Japan 7.3
	8.2	4.9	Pacific ex Japan 4.2
	15.2	11.9	Continental Europe 4.1
	35.6	59.7	United Kingdom 3.3
	1.9	0.0	Emerging Markets 3.3
			North America -24.2
			Cash 1.9

Size	Fund (%)	Index (%)	Active Weights
As at	43.6	78.6	
31 Oct 2019	29.0	19.1	
	20.0	2.3	Mega -35.0
	5.0	0.0	Large 9.8
	0.6	0.0	Mid 17.7
			Small 5.0
			Micro 0.6

The difference between the fund and benchmark weights may not equal stated active weights due to rounding.

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Investment in the Schroder Global Value Fund (Hedged) - wholesale class (the "Fund") may be made on an application form accompanying the current Product Disclosure Statement, available from Schroder Investment Management Australia Limited (ABN 22 000 443 274 AFSL 226473) ("Schroders"). This Report is intended solely for the information of the person to whom it is provided by Schroders. It should not be relied on by any person for the purposes of making investment decisions. Total returns are calculated using exit price to exit price, after fees and expenses, and assuming reinvestment of income. Gross returns are calculated using exit price to exit price and are gross of fees and expenses. The repayment of capital and performance of the Funds is not guaranteed by Schroders or any company in the Schroders Group. Past performance is not a reliable indicator of future performance. Unless otherwise stated the source for all graphs and tables contained in this report is Schroders. Opinions constitute our judgment at the time of issue and are subject to change. This report does not contain and is not to be taken as containing any financial product advice or financial product recommendation. For security reasons telephone calls may be recorded. Third party data is owned by the applicable third party identified above and is provided for your internal use only. Such data may not be reproduced or re-disseminated and may not be used to create any financial instruments or products or any indices. Such data is provided without any warranties of any kind. Neither the third party data owner nor any other party involved in the publication of this document can be held liable for any error. The terms of the third party's specific disclaimers are set forth in the Important Information section at www.schroders.com.au.