

# Schroder Wholesale Australian Equity Fund

## Overview

With an established pedigree of investing in Australian equities for over 50 years, the Schroder Wholesale Australian Equity Fund is an actively managed core Australian equity portfolio with a focus on investing in quality stocks predominantly in Australia characterised by strong returns on capital with a sustainable competitive advantage.

The analytical approach at Schroders seeks to value every business based on its sustainable revenues, margins and return on capital. We believe share prices will necessarily track fundamental value creation in the long run, meaning the ability to sustainably generate returns through growing tangible asset value and/or dividends is paramount.

The strategy has long term focus which results in relatively low levels of portfolio turnover. It is suitable as a core portfolio holding over a time frame greater than 5 years.

## Key features

- Focus on companies with sustainable competitive advantage that typically reward with superior returns in the long term
- Disciplined and structured investment approach which seeks to maximise comparability across businesses and maintain high levels of objectivity in valuations
- Intuitive and common-sense approach to risk management which seeks to focus on the fundamental risk inherent in a business and the way it is financed rather than focusing unduly on the range of emotional and non-fundamental factors which drive day to day share prices
- Integrated research approach where analyst research is organised along sectoral lines such that analysts maximise knowledge of how an industry operates and how businesses make money rather than focusing on business size
- Investment approach that incorporates the use of data science, company and competitor meetings and rigorous team debate in an effort to ensure assumptions incorporated in financial models and the assessment of business and industry fundamentals are as accurate as possible
- Experienced and dedicated investment team

## Portfolio summary\*

<b>Investment objective</b>	To outperform the S&P/ASX 200 Accumulation Index after fees over the medium to long term
<b>Style</b>	Quality/Growth
<b>No. of securities</b>	40-70
<b>Stock weights</b>	Top 100 stocks or non index stocks with market capitalisation greater than \$1 billion can generally be held at 5% above or below index weight. Stocks not in the Top 100 or non-index stocks are generally limited to 2.5% above index weight
<b>Sector weights</b>	No formal limits (typically +/- 10%)
<b>Expected tracking error</b>	2.5-4% pa (over rolling 3 years)

\*Investment guidelines are as at time of investment and subject to change without notice.

## Investment process

The investment process is a combination of qualitative industry and business quality assessment together with quantitative financial forecasts and valuations. Key elements of the investment process are:

### Stock coverage

We maintain direct coverage on all stocks within the S&P/ASX 300 Index, as well as a significant number of eligible stocks within the investment universe that are not included in this index. In our view, it is only with full coverage that the most attractive investment opportunities can be identified.

### Industry and business quality assessment

We undertake a wholistic assessment of how and why a business makes money, including detailed assessment of the industry in which a business operates, the spectrum of profitability within the industry, differing business models, technological threats, entry and exit barriers, customer and supplier power to name a few. Our views on industries are calibrated for consistency across businesses within the same industry. This ensures the rationale for our assessments on a business are transparent and supported.

### Financial modelling

Companies are subject to detailed financial analysis using our standardised proprietary company financial model. This model consists of a detailed profit & loss statement, cash flow statement, balance sheet and forecast assumptions. Whilst analysts retain flexibility to add additional information they believe pertinent to any company, the core elements of the financial model do not change. This design feature ensures internal consistency and eliminates potential errors. In addition, external meetings form an important part of the company assessment.

### Detailed company valuation

All companies within the investment universe are subject to the same 'sum of the parts' valuation methodology where financial statements are forecast forward three to five years to reach a 'mid-cycle' or sustainable level of earnings, margins and returns. This determination of the 'mid-cycle' or 'sustainable level' is a function of the industry and business quality assessment. Using a uniform, sustainable return valuation methodology across all companies across the investment universe enables the identification of superior return opportunities when compared to current share prices.

### Business and financial risk assessment

We believe the risk in any investment stems primarily from financial and operating leverage, not stock price volatility. Price volatility and the significant influence of human behaviour in allowing company valuations to move away from fair value is in large part of the inefficiency we seek to exploit. Analysts carry out an assessment of fundamental risk for every business. This is based on the historic assessment of the volatility of a company's revenue and margins and the extent to which financial leverage is employed in the capital structure.

### Portfolio construction

Portfolio construction aims to maximise risk adjusted expected returns, whilst maintaining sound economic diversification. Portfolio weights are the responsibility of the Portfolio Construction Committee and are guided through the use of a portfolio optimiser which incorporates all valuation data and risk parameters collected through the stock research phase. The portfolio optimiser is a valuable tool which is consistently enhanced, however, all portfolio changes are subjected to review by the committee for reasonableness and not driven solely by quantitative measures.

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**Or visit us at [www.schroders.com.au](http://www.schroders.com.au)**

**Disclaimer:** Investment in the Schroder Wholesale Australian Equity Fund may be made on an application form in the current Product Disclosure Statement (PDS) which is available from Schroder Investment Management Australia Ltd (ABN 22 000 443 274, AFS Licence 226473). The information contained in this Fund Summary is general information only and does not take into account your objectives, financial situation or needs. Before acting on the information contained in this Fund Summary you should obtain a copy of the PDS and consider the appropriateness of the information in regard to your objective, financial

situation and needs before making any decision about whether to invest, or continue to hold. The repayment of capital and performance in the Fund is not guaranteed by Schroders or any other party. Opinions constitute our judgement at the time of issue and are subject to change. Investment guidelines are internal only and are subject to change without notice. Past performance is not an indicator of future performance. For security reasons telephone calls may be taped.

## Fund features

### Inception date

July 2002 (strategy inception March 1964)

### Valuation

Normally every business day

### Minimum investment

\$20,000

### Buy/sell spread<sup>^</sup>

0.25% on application;  
0.25% on redemption

### Entry/exit fees

Nil

### Management costs (ICR)

0.92% p.a.

### Distributions

Usually last business day of June and December

### mFund code

SCH21

<sup>^</sup>Subject to change. Refer to website for latest spreads.

## What are the significant risks?

Over the long term, equities have generally outperformed other asset classes, however returns can be volatile and negative returns are possible in the short to medium term. It is therefore important to understand the risks associated with investing in the Fund.

Schroders actively assesses and manages risk at every stage of the investment process. The main risks specifically with investing in this strategy are market risk, equities risk, company risk, international investment risk, currency risk, derivatives risk, liquidity risk, counterparty risk, regulatory risk, administration risk and fund risk.

**For further details about the risks of investing in this strategy please refer to the Product Disclosure Statement.**