

# Schroder QEP Global Value

## Strategy Overview

### What is QEP Global Value?

The Schroder QEP Global Value is an index-unconstrained strategy designed to exploit the long-term premium available to investors in value stocks.

Analyzing a broad universe of 15,000 stocks across around 40 developed and emerging countries, the team constructs highly diversified portfolios without sacrificing conviction (active share 70%+, see below).

### Benefits of our approach

- Designed to seek out attractively valued companies in order to harvest the long-term value premium
- Exploits a wide opportunity set, tapping into all sectors and regions, including the emerging markets, and investing across the market cap spectrum
- Innovative approach to portfolio construction combining high conviction with broad diversification
- Highly experienced and well-resourced team

#### Long-term value premium is the fundamental driver

Attractively priced companies with strong fundamentals have tended to outperform in the long term and we aim to exploit this long-term value premium. Value strategies can experience some volatility, in particular they tend to struggle in market environments when stock prices become detached from fundamentals, but over the long run we believe they can reward investors who stick by their convictions.

#### Exploiting genuine breadth of opportunity

We maximize the opportunity set by looking beyond the index to an investment universe of more than 15,000 stocks globally. The strategy is highly diversified, typically investing in over 500 stocks, which enables us to gain exposure to many more potential return opportunities in a risk-controlled way. More stocks does not mean compromising on conviction and the strategy's active share<sup>1</sup> is typically higher than 70% - the strategy looks very different to the index.

#### Intelligent portfolio construction

Our process is focused on delivering returns through stock selection and does not impose any index-based sector or region constraints, enabling us to invest wherever we find the best opportunities. Moreover, by weighting stocks based on their fundamentals and not their size, our portfolios express genuine conviction and are not forced to hold higher weightings in more expensive stocks. Our portfolio construction tools allow us to manage the risk-return trade-off efficiently and we also focus on cost-effective implementation.

<sup>1</sup>Active share is a measure of the proportion of a portfolio's holdings that are different to the benchmark; an indexed portfolio identical to the benchmark would have a 0% active share, and a portfolio with no overlap at all with the benchmark would have an active share of 100%.

### About the team

The QEP Investment Team was established in 1996 and has managed assets since 2000. The team, led by Justin Abercrombie, consists of 31 team members based in

London, Sydney and New York. It manages around \$31 billion in a comprehensive range of global and emerging market equity strategies for

clients all over the world, including pension funds, insurance companies and sovereign wealth funds.

# A strategic approach to equity investing

There are three distinct components to the QEP team's investment philosophy:

1. All stock selection is focused on two key fundamental drivers of long-run equity returns: stock valuations and business quality.
2. We then use quantitative models to 'scale up' our process, which allows us to access the best opportunities across a broad global universe. These models enable us to maximise the opportunity set and re-balance portfolios in a disciplined way as opportunities evolve.
3. Finally, experienced investors are responsible for implementing every trade decision, ensuring proper diversification and identifying future risks and return opportunities.

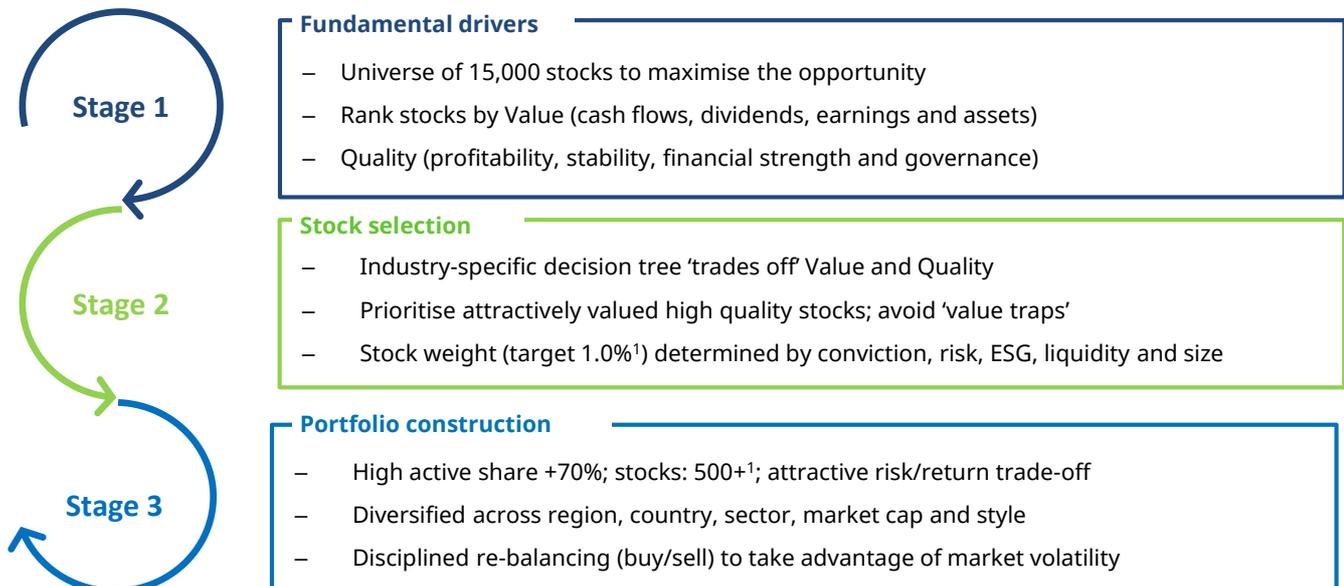
## Key features of QEP Global Value

Active share	70%+
Number of holdings	500+
Stock weights	Target 1.0% at the company level (at time of purchase)
Sector weights	Unconstrained
Country/region weights	Unconstrained except 20% maximum in emerging markets

Source: Schroders. Guidelines only and subject to change.

## Investment process

Our investment process can be summarized in three stages:



Source: Schroders. <sup>1</sup>Internal guidelines only and are subject to change.

## Investment process (continued)

### Stage 1 – Fundamental Drivers

We analyze an investment universe of 15,000 companies across around 40 developed and emerging countries. Each stock is ranked in terms of its Value, determined across measures of dividends, cashflow, earnings sales and assets. This rank is re-calculated on a daily basis in order to ensure that the latest information is incorporated e.g. price movements and company fundamentals.

### Stage 2 – Stock selection

We select stocks from the top third of our Value Rank. The decision on how much to invest in a stock is then guided by an additional assessment of its fundamentals, including a decision tree model which calculates our assessment of the probability of each stock's value being realised. Weights are further adjusted by a proprietary market impact model, which incorporates information on stock size, liquidity and volatility to reflect the associated trading risks while still allowing us as broad a range of investment opportunities as possible. Position sizes are not influenced by the market cap of the stock – weighting according to a company's fundamentals, rather than its market cap, means that we are not forced to hold higher weightings in more expensive stocks.

### Stage 3 – Portfolio construction

We take a disciplined and sophisticated approach to portfolio construction. Stock selection is primarily driven by bottom-up decisions as described in Stage 2. Sector, country and regional allocations are generally allowed to build from our stock selection process – we only invest where we see the best opportunities. Portfolios are exceptionally diversified, accessing a genuinely broad opportunity set while also reducing stock-specific risk.

Awareness of risk management is integrated throughout our investment process and in particular at this final stage. The most critical role of our portfolio managers is to understand when stocks are attractive on a risk-adjusted basis, maximizing return opportunities within a comprehensive risk framework. On a daily basis portfolio managers review trades which have been recommended by our proprietary allocator tool and make the final decision on implementation; no trade is made automatically. The team has built an impressive track record in the implementation of investment decisions: liquidity considerations are built in at every stage of the process and we actively work to minimize the costs of trading.

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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