Schroder QEP Global Value

What is QEP Global Value?

Schroder QEP Global Value is an index-unconstrained strategy designed to exploit the long-term premium available to investors in value stocks. Analysing 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). The strategy aims to outperform the MSCI AC World or comparable index by 3% p.a. gross of fees over a full market cycle.

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

Exploiting genuine breadth of opportunity

We maximise the opportunity set by looking beyond the index to an investment universe of more than 15,000 stocks globally. The fund 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 fund’s active share** is typically higher than 70% – the fund 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.

** 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 money since 2000. The team, led by Justin Abercrombie, consists of 29 members based in London, Sydney, New York and Hong Kong. It manages around $46 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.

Source: Schroders, team as at 31 July 2015, assets as at 30 June 2015.
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 (as defined by measures of Profitability, Stability and Financial Strength).

2. We then use quantitative tools to ‘scale up’ our process, which allows us to access the best opportunities across a broad global universe. These tools 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

<table>
<thead>
<tr>
<th>Feature</th>
<th>Details</th>
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<tbody>
<tr>
<td>Relative return target*</td>
<td>+3% p.a.</td>
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<tr>
<td>Tracking error**</td>
<td>4-5% p.a.</td>
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<tr>
<td>Active share</td>
<td>70%+</td>
</tr>
<tr>
<td>Number of holdings</td>
<td>500+</td>
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<tr>
<td>Stock weights</td>
<td>Maximum 0.75% at time of purchase</td>
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<tr>
<td>Sector weights</td>
<td>Unconstrained</td>
</tr>
<tr>
<td>Country / region weights</td>
<td>Unconstrained except 20% maximum in emerging markets</td>
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Source: Schroders. Guidelines only and subject to change.

* Outperformance objective is gross of fees per annum over a complete market cycle vs the MSCI AC World or comparable index.

** Tracking error is not targeted, this figure is an expected ex post value over the long term.

Investment process

Stage 1 – Global Value Rank

We analyse 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 recalculated 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 above. 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, maximising 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 minimise the costs of trading.

For more information about QEP Global Value and other strategies managed by the QEP Investment Team, please visit: www.schroders.com/qep

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