VIII Konferencja Inwestycyjna Schroders

Rok 2017 i co dalej; dług rynków wschodzących jako kluczowa klasa aktywów dywersyfikująca portfel

Matthew Michael | Product Manager, EMD&Commodities
## Schroder Global EMD* Capabilities

### Product Mapping

<table>
<thead>
<tr>
<th>Schroder Franchise</th>
<th>Unconstrained</th>
<th>Benchmark Relative</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fund Name</strong></td>
<td>Absolute / Total Return</td>
<td>Corporates</td>
</tr>
<tr>
<td></td>
<td>EM Debt AR</td>
<td>EM Corporate Bond</td>
</tr>
<tr>
<td><strong>Return Objectives</strong></td>
<td>Maximise Return</td>
<td>Outperform CEMBI Broad Div. by 2% pa.</td>
</tr>
<tr>
<td><strong>Risk</strong></td>
<td>Preserve Capital</td>
<td>Outperform Composite Benchmark** by 2-3% pa.</td>
</tr>
<tr>
<td><strong>Investment Universe</strong></td>
<td>EM Local / External / Corporate / Currencies</td>
<td>Tracking Error Limit</td>
</tr>
<tr>
<td><strong>Use of Corporates</strong></td>
<td>Periodic / Max 25%</td>
<td>Tracking Error Limit</td>
</tr>
<tr>
<td><strong>Use of Cash</strong></td>
<td>Aggressive use of cash to preserve capital</td>
<td><strong>Yes</strong></td>
</tr>
<tr>
<td><strong>Inception Date</strong></td>
<td>August 1997</td>
<td><strong>Yes</strong></td>
</tr>
<tr>
<td><strong>Fund Manager</strong></td>
<td>A Guezour + Team</td>
<td><strong>Limited</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Limited</strong></td>
</tr>
</tbody>
</table>

* Emerging Market Debt is referred to as EMD throughout this presentation  
** ⅓ GBI-EM Diversified, ⅓ EMBI Global Diversified, ⅓ CEMBI Broad Diversified  
Source: Schroders
## EMD Fund Universe

### Investment styles

<table>
<thead>
<tr>
<th></th>
<th>Beta</th>
<th>Schroder ISF EMD Absolute Return</th>
<th>Hedge Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td>External, local debt, sovereigns and</td>
<td>External and local debt, sovereigns and corporates, currencies</td>
<td>External, local debt, sovereigns or corporates, currencies</td>
</tr>
<tr>
<td></td>
<td>corporates, currencies</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Both single and Multi Sector</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Style</strong></td>
<td>Index-relative</td>
<td>Absolute return, unconstrained, long-only and unleveraged</td>
<td>Hedge Fund (Long/Short, Leveraged)</td>
</tr>
<tr>
<td><strong>Use of Derivatives</strong></td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Use of Corporates</strong></td>
<td>Heavy</td>
<td>Periodic</td>
<td>Heavy</td>
</tr>
<tr>
<td><strong>Risk</strong></td>
<td>Over-concentrated</td>
<td>Diversified</td>
<td>Variable</td>
</tr>
<tr>
<td><strong>Preservation of Capital</strong></td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td><strong>Liquidity</strong></td>
<td>Variable – can be very poor</td>
<td>Good</td>
<td>Poor</td>
</tr>
<tr>
<td><strong>Track Record</strong></td>
<td>Variable</td>
<td>Long</td>
<td>Variable / generally poor</td>
</tr>
</tbody>
</table>

Source: Schroders
Question 1

Would you invest in:

- An active approach / Strategia aktywnie zarządzana
- An ETF / ETF
- Both / Oba wyżej wymienione
- Avoid / Żadne z powyższych
2016 – A Post Crisis Era?

<table>
<thead>
<tr>
<th>Stage 1</th>
<th>Stage 2</th>
<th>Stage 3</th>
<th>Stage 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Post Crisis</td>
<td>Recovery</td>
<td>Euphoria</td>
<td>Crisis</td>
</tr>
<tr>
<td>Macro adjustment, high asset price volatility</td>
<td>Reforms and sound fundamentals, differentiation in asset performance</td>
<td>Policy mistakes and macro imbalances</td>
<td>Devaluation, emergency rate hikes and credit crisis. Panic selling</td>
</tr>
<tr>
<td>Macro adjustment, high asset price volatility</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


| GBI EM | - | - | 13.32% | 11.51% | 0.62 | 8.29% | 14.24% | 0.49 | -10.07% | 11.27% | -0.13 | 13.25 | 15.92 |
| ELMI+ | 8.78% | 6.36% | 0.61 | 9.24% | 7.25% | 0.93 | 2.49% | 9.58% | 0.30 | -5.59% | 5.70% | -0.18 | 5.00 | 8.27 |
| EMBI+ | 13.06% | 12.56% | 0.69 | 11.91% | 10.65% | 0.99 | 12.95% | 6.73% | 1.95 | -0.30% | 7.56% | 0.86 | 10.27 | 7.96 |
| SISF EMD AR** | 16.17% | 9.16% | 1.23 | 11.48% | 5.81% | 1.49 | 3.06% | 3.62% | 0.84 | -1.11% | 3.62% | 0.26 | 10.53 | 7.84 |

Source: Bloomberg; Schroders – 31st January 2017, * from January 2016 to January 2017, ** C NAV Gross, # Based on Calendar year to Calendar Year
An investment in EMD today offers:

Inwestycja w dług rynków wschodzących dzisiaj oferuje:

• A classic ‘Post Crisis’ investment opportunity / Klasyczną 'pokryzysową' okazję inwestycyjną

• Too much risk, so best to avoid it / Zbyt duże ryzyko, najlepiej unikać tej klasy aktywów

• Interesting but I’ll stick to credit and corporates for now / Interesujące ale pozostanę przy obligacjach korporacyjnych
Currencies
- EM Currencies are broadly undervalued. Trade competitiveness has been restored
- Most currencies reached extreme oversold levels and subsequently reversed (eg. BRL, CLP, COP, RUB, ZAR, MYR).
- Currencies of India, Indonesia and Central Europe are likely to be supported by recovering growth and stronger balance of payments
  ➔ Reinstall large exposures once the recent correction has run its course

Local Debt
- A significant monetary tightening has already occurred in a number of countries
- Yields are still high in Brazil, Colombia, Russia, South Africa, Indonesia and India
- Inflation has peaked in these countries…
- …and their central banks are regaining the ability to ease
  ➔ Core exposure to selected markets

Hard Currency Debt
- Expensive valuations
- Over-owned
- Poor liquidity (especially for Corporates)
- Very vulnerable to FED rate hikes
  ➔ Maintain minimal exposure
Investment outlook

Emerging Markets

Fundamental Analysis

Crisis brings change

India
Prime Minister
N. Modi

Indonesia
President
J. Widodo

Argentina
President
M. Macri

Brazil
President
D. Rousseff

South Africa
President
J. Zuma

Source: Google; Schroders – May 2016
Investment outlook

Country Analysis – Fundamental Analysis

Crisis brings change

Indonesia – back to external trade surplus
Trade balance in $billion – 12 month rolling sum

Indonesia – inflation back under control
CPI yoy

Source: Schroders; Thomson DataStream; Bank of Indonesia – 31 January 2017
Investment outlook

Global Environment

Valuations

EM Local vs EM External yields: highest, lowest and current

Source: Schroders; Bloomberg; JP Morgan – 31 January 2017
The collapse in EM Currencies appears overdone

JP Morgan EM Currency Index 2000-2017

Source: JP Morgan; Bloomberg – 31 January 2017
Investment outlook

Emerging Markets — Quantitative Analysis

Hot Money Indicator – Average country score by region

Source: Schroders - 30 December 2016
Investment outlook

Country Risk Score – December 2016

Source: Schroders – December 2016
Investment outlook

Global Environment

Quantitative Analysis

Country Risk Score before and after crisis

Source: Schroders; Thomson Datastream
Brazil and Russia – potential for aggressive rate cuts

Source: Schroders; Bloomberg – 31 January 2017
Investment outlook

Country Analysis

Quantitative Analysis

MEXICO - COUNTRY RISK SCORE BY VULNERABILITY INDICATOR (1980 - 2016)

Growth Dynamics
- Equilibrium
- Crisis

Sovereign External Liquidity
- Ample external liquidity
- External liquidity crunch

Hot Money Indicator
- Low reliance on short-term foreign capital
- High reliance on short-term foreign capital
- Low reliance on foreign funding

Banking System Ext. Liquidity
- High reliance on foreign funding

Competitiveness
- Cheap REER
- Expensive REER

Credit Cycle
- Early stages
- Overextended

Total Country Risk Score

Country Ranking

Source: Schroders – December 2016
Investment outlook

Country Analysis

Quantitative Analysis

Mexican peso Valuation

Real Effective Exchange Rate

Currency Valuation Score

Source: Schroders; Bloomberg – 31 January 2017
Investment outlook

Country Analysis

Quantitative Analysis

HUNGARY - COUNTRY RISK SCORE BY VULNERABILITY INDICATOR (1980 - 2016)

Growth Dynamics
- Equilibrium
- Crisis

Sovereign External Liquidity
- Ample external liquidity
- External liquidity crunch

Hot Money Indicator
- Low reliance on short-term foreign capital
- High reliance on short-term foreign capital

Banking System Ext. Liquidity
- Low reliance on foreign funding
- High reliance on foreign funding

Competitiveness
- Cheap REER
- Expensive REER

Credit Cycle
- Early stages
- Overextended

Total Country Risk Score
- Very High Risk of Crisis

Country Ranking

Source: Schroders – December 2016
Investment outlook

Country Analysis

Quantitative Analysis

INDIA - COUNTRY RISK SCORE BY VULNERABILITY INDICATOR (1980 - 2016)

Growth Dynamics
- Equilibrium
- Crisis

Sovereign External Liquidity
- Ample external liquidity
- External liquidity crunch

Hot Money Indicator
- Low reliance on short-term foreign capital
- High reliance on short-term foreign capital

Banking System Ext. Liquidity
- Low reliance on foreign funding
- High reliance on foreign funding

Competitiveness
- Cheap REER
- Expensive REER

Credit Cycle
- Early stages
- Overextended

Total Country Risk Score
- High risk of crisis

Country Ranking

Source: Schroders – December 2016
China: Forced quantitative tightening over?

PBOC total asset annual growth %

PBOC key assets % GDP

FX Reserves % M2

Source: Bloomberg; Thomson DataStream; Schroders – December 2016
Question 3

Best likely returns in the coming 12 months:

Najwyższe stopy zwrotu w kolejnych 12 miesiącach przyniosą:

• Argentine Local Govt bonds / Obligacje Argentyny w walucie lokalnej

• Petroleos de Venezuela 2017 bond / Obligacje spółki Petroleos de Venezuela

• US 30 year Govt bonds / 30-letnie rządowe obligacje amerykańskie

• Chinese Stocks / Chińskie akcje
Schroder ISF EMD Absolute Return

Objectives

1. No losses in any 12 month period
2. Maximise returns whilst achieving Objective 1

Investment Approach

- Broad investment universe including currencies, local and external debt in sovereign and corporate/convertibles in over 50 countries
- Long-only, Absolute Return approach based on comprehensive country research
- No leverage or complicated derivatives
- Risk controlled by liquidity based diversification limits, portfolio stop-loss and use of cash

Role in Portfolios

- As a low-risk or entry level EMD exposure or combined with standard EMD beta managers
- As an absolute return strategy, designed to diversify risk and enhance returns
- As a liquid alternative investment

Source: Schroders
Investment process

Research
- Fundamental
- Quantitative
- Technical
- Sentiment

Decision-Making
- Global Review Quarterly
- Country Reviews Weekly

Risk Control
- Limits
- Buy Discipline
- Fund Stop-Loss

Asset Allocation

Source: Schroders
## Risk Control – Diversification Rules

<table>
<thead>
<tr>
<th>Region</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin American</td>
<td>75%</td>
</tr>
<tr>
<td>Asia</td>
<td>75%</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>50%</td>
</tr>
<tr>
<td>Africa/Middle East</td>
<td>25%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Countries</th>
<th>Any Country</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier I</td>
<td>20%</td>
<td>100%</td>
</tr>
<tr>
<td>Tier II</td>
<td>10%</td>
<td>50%</td>
</tr>
<tr>
<td>Tier III</td>
<td>5%</td>
<td>25%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Corporate</th>
<th>Any Corporate *</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2.5%</td>
<td>25%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Security</th>
<th>Any Security</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>10% NAV/per issue</td>
</tr>
</tbody>
</table>

| CASH            | 40%             |

<table>
<thead>
<tr>
<th>COUNTRY LIMITS</th>
<th>Tier I (max 20%)</th>
<th>Tier II (max 10%)</th>
<th>Tier III (max 5%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>Argentina</td>
<td>Bulgaria</td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>Chile</td>
<td>Ecuador</td>
<td></td>
</tr>
<tr>
<td>Hong Kong</td>
<td>Colombia</td>
<td>Egypt</td>
<td></td>
</tr>
<tr>
<td>Hungary</td>
<td>Croatia</td>
<td>Gabon</td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>Czech Republic</td>
<td>Iraq</td>
<td></td>
</tr>
<tr>
<td>Korea</td>
<td>Greece</td>
<td>Ivory Coast</td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td>Indonesia</td>
<td>Jordan</td>
<td></td>
</tr>
<tr>
<td>Philippines</td>
<td>Kazakhstan</td>
<td>Kuwait</td>
<td></td>
</tr>
<tr>
<td>Poland</td>
<td>Malaysia</td>
<td>Latvia</td>
<td></td>
</tr>
<tr>
<td>Russia</td>
<td>Peru</td>
<td>Lithuania</td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td>Romania</td>
<td>Morocco</td>
<td></td>
</tr>
<tr>
<td>South Africa</td>
<td>Saudi Arabia</td>
<td>Nigeria</td>
<td></td>
</tr>
<tr>
<td>Taiwan</td>
<td>Slovakia</td>
<td>Pakistan</td>
<td></td>
</tr>
<tr>
<td>Thailand</td>
<td>United Arab Emirates</td>
<td>Panama</td>
<td></td>
</tr>
<tr>
<td>Turkey</td>
<td>Venezuela</td>
<td>Qatar</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rep. of Congo</td>
<td>Serbia</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ukraine</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Uruguay</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Vietnam</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>ANY OTHER</td>
<td></td>
</tr>
</tbody>
</table>

TOTAL Tier I: 100%  TOTAL Tier II: 50%  TOTAL Tier III: 25%

Source: Schroders – January 2017. Please note that such limits are internal and may be subject to change without notice.

* The Fund will not have exposure to Tobacco or Munitions related investments.
Investment process
Research: Country Analysis

Schroders Alternative Investments Group – Emerging Markets Debt
Indonesia – Investment Summary

1. Fundamental Analysis
- The beginning of Joko Widodo’s presidency has not led to the widely anticipated impetus and urgency to reforms. However, expectations have now become more realistic. Moreover, the president has recently engaged in a cabinet reshuffle, an increased majority and the announcement of a promising package of reforms.
- The country is well positioned to experience an investment-led recovery. Infrastructure investment has recently accelerated and the central bank has regained the right to withdraw a large part of the emergency tightening implemented in 2013. Indeed, inflation and balance of payments vulnerabilities are now under control.
- The current easing cycle has further to go and all Indonesian assets (especially local bonds) are expected to benefit handsomely.

2. Quantitative Analysis
- The Country Risk Score remains in negative territory but it has improved during the course of the last 2 years thus moving Indonesia out of the danger zone. They key vulnerabilities which have improved are: (i) Hot Money with lower reliance on short-term foreign capital; and (ii) Competitiveness, which has improved thanks to the devaluation of the last 2.5 years and the drop in inflation.
- Despite these encouraging improvements, the continued negative lending given by the Country Risk Score combined with the Long-Term Asset Valuation Model show the following results:

<table>
<thead>
<tr>
<th>Currency</th>
<th>Fairly Valued</th>
<th>External Debt</th>
<th>Fairly Valued</th>
<th>Stock Market</th>
<th>Fairly Valued</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Debt</td>
<td>Fairly Valued</td>
<td>External Debt</td>
<td>Fairly Valued</td>
<td>Stock Market</td>
<td>Fairly Valued</td>
</tr>
</tbody>
</table>

3. Chart Analysis
- Currency: Positive – Long-term Pattern Analysis suggests that some caution remains warranted as the recent depreciation led to a break of multi-year ranges. A return back into these ranges (2-3% appreciation) would be positive. Other elements of Analysis (Trend and Momentum Indicators) have already turned convincingly bullish for IDR.
- 10-year Local Debt: Positive – The break higher of the 5-year range for yields has been quickly rejected invalidating our recent bearish stance on this market. Yields are now resuming their downward trajectory and indicators of Trend, Momentum and Pattern suggest that the decline in yields has further to go. Point & Figure Charts have recently activated a target of 6.4% for 10-year government bond yield.
- External Debt: Neutral - Chart indicators are currently mixed. However, a small move higher in prices could turn the outlook more convincingly bullish (e.g. for 2035 USD bond, currently at 126, a break above 127 would open the possibility for a rally to 134 and possibly beyond).
- Stock Market: Positive – The recent break lower of various long-term uptrends is worrisome from a Pattern Analysis standpoint. However, many other technical indicators have recently turned so convincingly bullish that the recent correction seems to be over. A resumption of the long-term uptrend is expected.

4. Sentiment Analysis
- Currency: Neutral – Investors’ positioning is now neutral after a large reduction in overweight exposures in H2 2015.
- 10-year Local Debt: Neutral – Investors in EM continue to favour this segment. Renewed buying has recently resumed.
- 10-year External Debt: Neutral – Continued overweight by investors but no convincing sign of reduction in exposure.
- Stock Market: Neutral – Analyst recommendations measured by “Buy Percentage” are improving (bullish signal) but Equity Fund Flows remain negative.

5. Final Forecasts

<table>
<thead>
<tr>
<th>Current</th>
<th>Forecasts</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDR versus USD</td>
<td>11 500</td>
</tr>
<tr>
<td>1 year Local IDR Gov. bond (ytm)</td>
<td>7 15</td>
</tr>
<tr>
<td>10-year Local IDR Gov. Bond (ytm)</td>
<td>7 05</td>
</tr>
<tr>
<td>10-year External USD Gov. Bond (spread)</td>
<td>253</td>
</tr>
<tr>
<td>Jakarta Stock Exchange (3D)</td>
<td>4 778</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>12 month expected Return: Currency, Bonds, Stocks</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDR versus USD</td>
</tr>
<tr>
<td>1 year Local IDR Gov. bond (ytm)</td>
</tr>
<tr>
<td>10-year Local IDR Gov. Bond (ytm)</td>
</tr>
<tr>
<td>10-year External USD Gov. Bond (spread)</td>
</tr>
<tr>
<td>Jakarta Stock Exchange (3D)</td>
</tr>
</tbody>
</table>

Abdallah Guenzur – February 2016

Source: Schroders. The country research report shown is an example of the research output from the Schroders Emerging Market Debt team. The report contains historical information, including forecasted data, and it is not offered to reflect our current views or current economic data and should not be considered an investment recommendation.
**Investment process**

**Decision Making: The Scorecard**

All elements of the Process are summarised in the Scorecard to facilitate decisions.
Historical sector allocation

Source: Schroders – 31 January 2017
People

Head of EMD and Commodities Group

Geoff Blanning
32 years experience

Americas

Guillermo Besaccia
25 years experience

Asia (Head of EMD)

Abdallah Guezour
22 years experience

EEMEA

Nick Brown
22 years experience

Technical and Sentiment Analysis

Malcolm Melville

Quantitative Analysis

Oscar Agra

Product Management and Support

Christopher Wyke Matthew Michael Nichola Bellini Fiona Petrie Lucy Connolly

Implementation and Trading

Simon Hodges Chris Smith Lee Clapton Katie Tutcher

Source: Schroders
## Performance

Schroder ISF EMD Absolute Return

### Fund Correlations
**December 1998 to December 2016**

<table>
<thead>
<tr>
<th>Schroder ISF EMD Absolute Return*</th>
<th>Correlation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Bonds</td>
<td>0.53</td>
</tr>
<tr>
<td>Global Equities</td>
<td>0.36</td>
</tr>
<tr>
<td>US Treasuries</td>
<td>0.22</td>
</tr>
<tr>
<td>US Equities</td>
<td>0.25</td>
</tr>
<tr>
<td>Global High Yield</td>
<td>0.50</td>
</tr>
<tr>
<td>Euro Government Bonds</td>
<td>0.51</td>
</tr>
<tr>
<td>Euro Equities</td>
<td>0.39</td>
</tr>
<tr>
<td>Commodities</td>
<td>0.28</td>
</tr>
<tr>
<td>GBI EM†</td>
<td>0.74</td>
</tr>
<tr>
<td>EMBI +</td>
<td>0.61</td>
</tr>
<tr>
<td>ELMI +</td>
<td>0.61</td>
</tr>
</tbody>
</table>

### December 1998 to December 2016

- **EM External Debt (EMBI+)**
- **EM Local Debt (GBI EM)†**
- **EM Currencies (ELMI+)**
- **Absolute Return Funds (Lipper)^**

*Schroder ISF EMD Absolute Return Gross Composite Returns
**Annualised standard deviation of monthly returns † GBI – EM inception July 2001 ^ Based on average monthly returns of peer group.
Source: Bloomberg; Schroders – December 2016
Performance

Risk/Reward vs. Lipper Universes

Source: Schroders – January 2017 *C NAV Net Returns **Absolute Return
†Generated by Schroders from compounded monthly mean peer group returns sourced from the Lipper Universe database
Performance
Schroder ISF EMD Absolute Return

Historical performance drawdowns under control

Schroder ISF EMD AR Price (100 in Dec 1998)*

2008 US credit crisis
-9.9%

2015 EM / China crisis
-8.9%

Source: Schroders; Bloomberg – 31 January 2017
* C NAV Gross
Performance

Proven Diversification: Low Correlation to Other Fixed Income Sectors

3 Year Rolling Correlations to Schroder ISF EMD AR

Source: JP Morgan; Bloomberg – 31st January 2017
### Bond Exposure %

- Local Debt: 66.0%
- Cash: 19.0%
- EM External: 4.3%

### Currency Exposure %

- US Dollar: 50.9%
- EM External: 4.3%

### Regional Exposure %

- Latin America: 35.2%
- Europe: 25.3%
- Asia: 15.2%
- Africa / Middle East: 5.3%

### Fund Duration
2.59 years

### Corporate Exposure
0.6%

### Average Credit Rating
A-

### Yield to Maturity
4.09%

Source: Schroders – 31 January 2017
Historical duration


Source: Schroders; JP Morgan – 31 December 2017
Appendix
# Schroder EMD Absolute Return

## Performance in USD – December 2016

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Schroder EMD*</td>
<td>24.69</td>
<td>22.43</td>
<td>3.68</td>
<td>30.00</td>
<td>17.64</td>
<td>3.25</td>
<td>10.99</td>
<td>12.41</td>
<td>0.72</td>
<td>14.60</td>
<td>8.31</td>
<td>-0.31</td>
<td>19.75</td>
<td>3.04</td>
<td>0.77</td>
<td>5.46</td>
<td>0.93</td>
<td>0.64</td>
<td>-4.79</td>
<td>9.81</td>
<td></td>
<td></td>
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</tbody>
</table>

Since December 1998*

<table>
<thead>
<tr>
<th>Schroders**</th>
<th>EMBI+</th>
<th>ELMI+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Rate of Return</td>
<td>8.55</td>
<td>10.00</td>
</tr>
<tr>
<td>Volatility</td>
<td>6.24</td>
<td>9.89</td>
</tr>
<tr>
<td>Negative Quarters</td>
<td>17</td>
<td>20</td>
</tr>
<tr>
<td>Sharpe Ratio</td>
<td>1.10</td>
<td>0.86</td>
</tr>
<tr>
<td>Correlation vs. Schroders</td>
<td>1</td>
<td>0.62</td>
</tr>
</tbody>
</table>

Since Inception†*

<table>
<thead>
<tr>
<th>USD %</th>
<th>Cumulative Total Return</th>
<th>Annual Rate of Return</th>
<th>Volatility</th>
<th>-ve Qs</th>
<th>Sharpe Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schroder EMD*</td>
<td>595.37</td>
<td>9.27</td>
<td>7.30</td>
<td>20</td>
<td>0.96</td>
</tr>
<tr>
<td>EMBI+</td>
<td>941.78</td>
<td>11.31</td>
<td>12.57</td>
<td>23</td>
<td>0.76</td>
</tr>
<tr>
<td>ELMI+</td>
<td>239.20</td>
<td>5.74</td>
<td>8.47</td>
<td>28</td>
<td>0.43</td>
</tr>
</tbody>
</table>

Source: Schroders; JP Morgan
†Inception February 23, 1995
*Composite gross NAV to NAV
**Schroders refers to the Schroder Emerging Market Debt Composite (the “Composite”), gross of fees.
## Performance attribution

### Schroder ISF EMD Absolute Return: Contribution to return by sector

<table>
<thead>
<tr>
<th>%</th>
<th>External Debt</th>
<th>Local Debt and Currency</th>
<th>Fund Return*</th>
<th>Fund Volatility</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>2.13</td>
<td>7.63</td>
<td>9.83</td>
<td>8.17%</td>
</tr>
<tr>
<td>2015</td>
<td>0.34</td>
<td>-4.91</td>
<td>-4.78</td>
<td>2.98%</td>
</tr>
<tr>
<td>2014</td>
<td>0.61</td>
<td>-0.12</td>
<td>0.65</td>
<td>4.65%</td>
</tr>
<tr>
<td>2013</td>
<td>2.31</td>
<td>-0.97</td>
<td>0.92</td>
<td>3.04%</td>
</tr>
<tr>
<td>2012</td>
<td>3.23</td>
<td>2.38</td>
<td>5.44</td>
<td>3.73%</td>
</tr>
<tr>
<td>2011</td>
<td>0.04</td>
<td>0.60</td>
<td>0.79</td>
<td>3.70%</td>
</tr>
<tr>
<td>2010</td>
<td>0.03</td>
<td>3.43</td>
<td>3.01</td>
<td>3.63%</td>
</tr>
<tr>
<td>2009</td>
<td>8.30</td>
<td>10.25</td>
<td>19.72</td>
<td>8.71%</td>
</tr>
<tr>
<td>2008</td>
<td>1.18</td>
<td>-0.53</td>
<td>-0.25</td>
<td>7.19%</td>
</tr>
<tr>
<td>2007</td>
<td>1.25</td>
<td>7.18</td>
<td>8.32</td>
<td>3.72%</td>
</tr>
<tr>
<td>2006</td>
<td>1.78</td>
<td>12.07</td>
<td>14.60</td>
<td>3.91%</td>
</tr>
<tr>
<td>2005</td>
<td>-1.32</td>
<td>2.02</td>
<td>0.72</td>
<td>3.23%</td>
</tr>
<tr>
<td>2004</td>
<td>1.82</td>
<td>11.02</td>
<td>12.41</td>
<td>5.57%</td>
</tr>
<tr>
<td>2003</td>
<td>3.83</td>
<td>10.93</td>
<td>11.19</td>
<td>4.49%</td>
</tr>
<tr>
<td>2002</td>
<td>2.69</td>
<td>20.26</td>
<td>28.23</td>
<td>5.27%</td>
</tr>
<tr>
<td>2001</td>
<td>0.50</td>
<td>7.79</td>
<td>3.21</td>
<td>7.91%</td>
</tr>
<tr>
<td>2000</td>
<td>10.07</td>
<td>7.59</td>
<td>17.62</td>
<td>8.39%</td>
</tr>
<tr>
<td>1999</td>
<td>29.11</td>
<td>0.90</td>
<td>29.19</td>
<td>10.48%</td>
</tr>
</tbody>
</table>

Source: Schroders – 30 December 2016

* The Fund Return does not always equal the sum of the previous two columns. The difference is due to the residual in the attribution calculations, which is primarily due to the time difference between the NAV declaration and the pricing of the underlying holdings.
Schroders’ Commodity and EMD AR Funds
2017 Performance to end January

Source: Schroders; Bloomberg – 31 January 2017, gross returns *Schroder Alternative Solutions is referred to as Schroder AS
**Definition of the Firm**

The Firm is defined as all accounts managed by Schroder Investment Management in the UK and US, by wholly owned subsidiaries of Schroders PLC. Prior to 1 January 2007 SIM London & SIM North America existed as two separate Firms which were compliant & verified as separate entities until 31 December 2006. The consolidation of these two Firms was made as part of a move towards creating one global Firm. Composite and Firm assets reported prior to 1 January 2007 represent those of the legacy firm which managed the product. Prior to 1 January 2011 the SPrIM (Schroder Property Investment Management) Firm existed separate to the Schroder Investment Management UK and US Firm, from 1 January 2011 these Firms have been combined into a single firm.

On April 2, 2013, Schroder U.S. Holdings Inc., a subsidiary of Schroders plc, purchased STW Fixed Income Management LLC (STW) and on July 2, 2013, Schroders plc, purchased Cazenove Capital Holdings; assets managed by STW and Cazenove are included in the Firm from 1st January 2014. Assets Managed against a liability driven mandate are excluded from the GIPS Firm.

A complete list and description of the Firm's composites and performance results is available upon request.

**Composite Definition**

The Schroder Emerging Market Debt Composite (the "Composite") is comprised of all Schroder Investment Management UK & US, fully discretionary accounts managed according to the Schroder Emerging Market Debt Composite strategy. The Strategy has no defined benchmark as it aims to provide an absolute return of capital growth and income primarily through investment in a portfolio of bonds and other fixed and floating rate securities issued by governments, government agencies, supra-national and corporate issuers in emerging markets. Derivatives may be used to manage currency risk.

**Composite Construction**

New accounts are included from the beginning of the first full month of management on a discretionary basis. Terminated accounts are excluded from the end of the last full month of discretionary management. This Composite has no minimum asset level for inclusion.

The composite currency is US Dollar

**Composite Inception Date:** 1995-12-31

**Composite Creation Date:** 2008-06-04

**Calculation Methodology**

The portfolio returns are time-weighted rates of return that are adjusted for cash flows. Portfolio returns are combined using beginning of period asset weights to produce the composite return. Periodic returns are geometrically linked to produce annual returns.

Dividends on equities are recognised net of irrecoverable withholding tax. Since January 1999 dividends have been recognised as of the ex-dividend date having previously been recognised on a cash basis. Performance results are presented before the deduction of management fees and custodian fees but after trading expenses.

**Dispersion**

The dispersion of annual returns is measured by the asset weighted standard deviation of portfolio returns represented within the composite for the full year provided a minimum of 5 portfolios are available.

**Fee Schedule**

The following fee scale has been applied to the composite:

- 0.9% p.a. from inception to 31/12/06
- 1% p.a. from 31/12/06 to 30/06/10
- 1.15% p.a. thereafter

**GIPS Compliance and Verification**

Schroder Investment Management (UK & US) claims compliance with the Global Investment Performance Standards GIPS® and has prepared and presented this report in compliance with the GIPS standards. Schroder Investment Management (UK & US) has been independently verified for the periods 1 January 1996 to 31 December 2014. Verification assesses whether (1) the Firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Schroder Emerging Market Debt Composite (the "composite") has been examined for the periods 1 January 2008 to 31 December 2014. The verification and performance examination reports are available upon request.

**Additional Information**

The exchange rates used are provided by WM. Each currency is valued at 4 pm on the last business day of the month.

Additional information regarding policies for valuing portfolios, calculating and reporting returns and a description of all composites are available on request.
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In order to access restricted markets, the fund may invest in structured products. Should the counterparty default, the value of these structured products may be nil.
Non-investment grade securities will generally pay higher yields than more highly rated securities but will be subject to greater market, credit and default risk.
A security issuer may not be able to meet its obligations to make timely payments of interest and principal. This will affect the credit rating of those securities.
Investments in money market instruments and deposits with financial institutions may be subject to price fluctuation or default by the issuer. Some of the amounts deposited may not be returned to the fund.
Currency derivative instruments are subject to the default risk of the counterparty. The unrealised gain and some of the desired market exposure may be lost.
Investments denominated in a currency other than that of the share-class may not be hedged. The market movements between those currencies will impact the share-class.
Emerging markets will generally be subject to greater political, legal, counterparty and operational risk.

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