

# Schroder International Equity Alpha Product Overview

## Strategy overview

Schroders' International Equity Alpha strategy offers a concentrated, fundamental research-driven approach aimed at delivering strong outperformance. Our style is to seek reasonably priced growth companies that demonstrate a sustainable competitive advantage. We focus on only the very best investment ideas that are identified by Schroders' team of locally based Equity Analysts and our International Equities Team of Portfolio Managers and Global Sector Specialists.

## Firm highlights

- Schroders manages over \$186.5 billion in assets worldwide
- Asset management is our sole business
- Dedicated to proprietary research – fundamental and quantitative
- Over 330 portfolio managers and analysts globally
- Truly global reach: 33 offices in 26 countries

## Team highlights

- Under the leadership of Virginie Maisonneuve, the team currently manage over \$7 billion in EAFE assets
- Dedicated team of 10 investment professionals averaging 14 years investment experience, based in London
- Global sector specialists utilize Schroders' proprietary research platform to identify best ideas from around the world
- Partner with more than 70 locally based Schroders research analysts in 11 countries
- Globally integrated research platform (GRiD)

## Key features

- Generally 40 – 60 of our best international ideas
- Quality growth companies with sustainable competitive advantage
- Bottom-up stock selection the primary source of added value
- Opportunistic emerging market exposure
- Matrix approach incorporating global sector expertise and local knowledge
- Approach to research and global “best ideas” drive portfolio construction and seeks alpha generation
- Risk framework designed to maximize the performance impact of stock selection

## Investment objective

We aim to outperform the MSCI EAFE Index (before fees) over a market cycle (3 years).

## Investment philosophy

We believe that markets are generally inefficient. Short-term sentiment makes shares more volatile than their fundamentals, meaning that share prices tend to overreact on both the upside and downside.

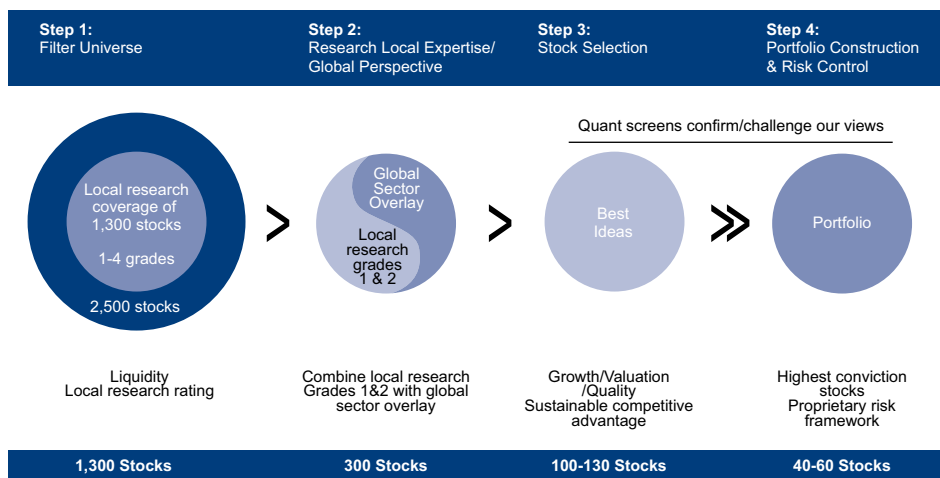
We believe that reasonably priced international quality companies with strong growth prospects and sustainable competitive advantages will produce superior long-term investment returns. We also believe that in-depth fundamental research, incorporating a comprehensive macroeconomic viewpoint and thematic roadmap, is the most reliable means of finding such companies and identifying where growth is undervalued in the market.

All data and statistics as of June 30, 2009



## Investment process – overview

Schroders' international equity team applies in-depth fundamental research processes to construct concentrated portfolios with the aim of delivering competitive investment returns. Stocks are researched at the local level and, crucially, analyzed in the context of the global market.



Source: Schroders.

## Investment process – stock selection and portfolio construction

As stock selection is the primary source of adding value in our International Equity Alpha portfolios, we dedicate most of our time to researching stocks and ensuring that we include only those stocks in which we have the strongest conviction. We follow a four-step decision-making process:

1. We narrow the universe of international stocks to approximately 1,300 by using quantitative screening techniques (looking for sufficient size, liquidity and financial metrics that indicate high quality) and qualitative research by over 70 local analysts (as of June 30, 2009) in 11 countries. This list is the subject of in-depth research, including company modeling that incorporates Schroders' macroeconomic views. Each company is assigned a fair market value and is graded on a scale of 1 to 4 for relative local market strength.
2. Global Sector Specialists (GSS) further narrow this list to around 300 names. The GSS focus their efforts on stocks ranked 1 or 2 by the local analysts as being the strongest companies within their respective regions. As opposed to looking at local market strength, this step evaluates company strength relative to global sector dynamics and in the context of cross-border valuations.
3. The team's best investment ideas are identified based on three key characteristics: attractive medium-term growth and valuation, quality of management and financial position and sustainable competitive advantage. Proprietary "growth at a reasonable price" screens, developed by the International Equity Team, confirm and/or challenge these fundamental views. Similar to the fundamental analysis, the quantitative screens grade stocks 1 to 4. A screen view that differs strongly from the fundamental view will not drive the investment decision, but will help generate a further degree of questioning the fundamental thesis.
4. Portfolio construction is driven by stock selection and highest-conviction ideas. The portfolios generally hold 40 to 60 securities and are a blend of core and opportunistic holdings. Country and currency weights are residual of our bottom-up stock-selection process. While the process is a team approach, the ultimate decisions are made by the Head of International Equities.

## Portfolio implementation

Schroders has committed separate resources for implementation. The implementation team replicates the investment strategy across all applicable portfolios and identifies portfolio-specific restrictions that limit holdings of certain issuer names or do not permit investment in certain asset classes. This is a highly efficient process, aided by the use of third-party trade processing and implementation software. The group uses the Charles River compliance engine to ensure that any trade proposed for a portfolio passes the investment criteria specified by that portfolio before execution.

## International equity team



Source: Schroders. Data as of June 30, 2009

## Risk management

The primary means of risk management is embedded in the in-depth proprietary research that our equity analysts devote to understanding as much as possible about each company in their investment universe, including risks to both the upside and downside.

In addition, we have developed an in-house risk-monitoring tool called Portfolio Risk Investment Strategy Manager (PRISM), which enables our investment team to look at a variety of risks from different angles. Screening tools are used throughout the investment process to confirm and challenge portfolio selections and positioning.

## Risks

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. Emerging markets pose greater risks than investments in developed markets.

### Why Schroders for International Equity Alpha?

- Ten-strong team based together in London, highly experienced in global investing (average 14 years investment experience; 9 at Schroders)
- Supported by a very strong research platform: Schroders network of 70+ equity regional analysts across 11 countries worldwide
- Focused on bottom-up stock selection to drive value added and attractive growth and valuation characteristics
- Team based, rigorous, “total portfolio construction” process
- Internally developed risk analysis framework seeks to ensure that risks are aligned and quantified in line with our investment views

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#### Schroders plc

Schroders is a global asset management company with \$186.5 billion under management as of June 30, 2009. Our clients are major financial institutions including banks and insurance companies, public and private pension funds, endowments and foundations, high net worth individuals, financial intermediaries and retail investors. Our aim is to apply our specialist asset management skills in serving the needs of our clients worldwide and in delivering value to our shareholders. With one of the largest networks of offices of any dedicated asset management company and over 330 portfolio managers and analysts covering the world's investment markets, we offer our clients a comprehensive range of products and services.

Further information about Schroders can be found at [www.schroders.com/us](http://www.schroders.com/us).

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