

# Schroder Investment Management North America Inc.

September 2014

## Bay County Employees' Retirement System

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**Schroders**

# Investment Philosophy and Team



**Schroders**

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# Investment philosophy

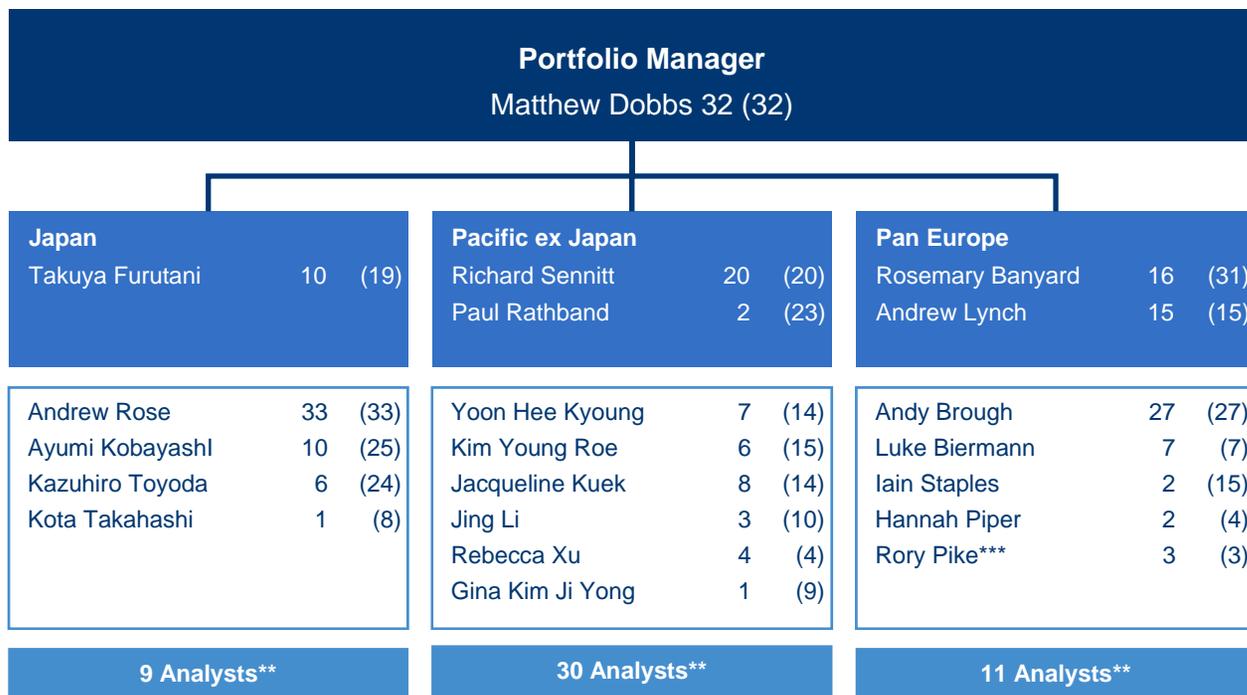
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- Stock selection primary source of value added
- Growth and Quality, but at a reasonable price
- Long-term time horizon
- Strong risk framework
- A fully resourced and focused team

# Resources

## International smallcap

- 21 specialists in international small company research and investment\*
- Regional sector analysts assume coverage where sectoral knowledge offers clear benefits
- Primary research conducted out of Schroder research offices globally
- Cross fertilization of investment ideas between regions



# = Number of years with Schroders. (#) = Numbers of years investment experience. \*Source: Schroders as of 30 June 2014. \*\* 30 June 2014. \*\*\* Includes other coverage

# Performance



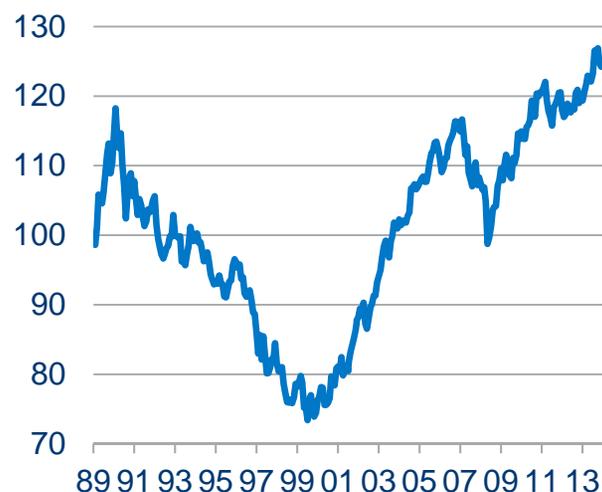
**Schroders**

# Investment Environment

- Smaller companies performed strongly in the 12 months to June and outperformed their large cap peers with the S&P EPAC SmallCap Index up +29.6% compared to the +23.6% return of the MSCI EAFE Index.
- Smaller companies have outperformed in all regions apart from Pacific ex Japan, with the strongest contribution to relative performance from continental Europe.
- By sector, small cap relative strength has been most evident in industrials with also notable contributions from financials, consumer discretionary and information technology. Energy was the only sector where small underperformed large.

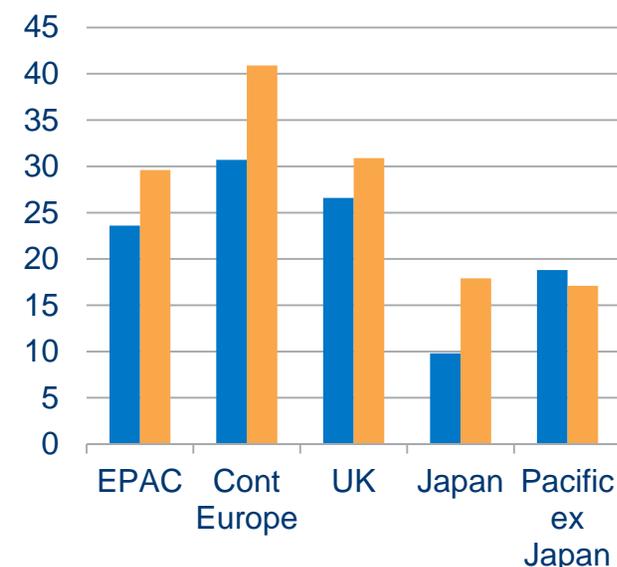
## S&P EPAC SmallCap Index vs. MSCI EAFE Index<sup>1</sup>

June 1989 = 100



## MSCI EAFE and S&P EPAC SmallCap Index Performance in US\$(%)<sup>2</sup>

12 months to 30 June 2014



■ MSCI EAFE ■ S&P EPAC SmallCap

<sup>1</sup>Source: Schroders, S&P, MSCI, 30 June 2014

<sup>2</sup>Source: Schroders, S&P

Performance shown is past performance. Past performance is not necessarily a guide to future performance. The value of investment can go down as well as up and is not guaranteed

# Performance

## SISCO\*\* - Bay County Employees' Retirement System

**Value:** US\$ 19,531,639 as at 30 June 2014

**Inception date:** June 30, 2006

### Performance to 30 June 2014 (in US\$%)

	Q2 2014	1 year	3 years*	5 years*	Since inception*
SISCO**	+1.7	+32.3	+9.7	+15.9	+7.1
Index***	+2.9	+31.1	+11.3	+16.7	+7.4
S&P EPAC SmallCap Index	+2.5	+29.6	+9.8	+15.2	+5.9
<b>Value Added vs Index***</b>	<b>-1.2</b>	<b>+1.2</b>	<b>-1.6</b>	<b>-0.8</b>	<b>-0.3</b>
<b>Value Added vs S&amp;P EPAC SmallCap Index</b>	<b>-0.8</b>	<b>+2.7</b>	<b>-0.1</b>	<b>+0.7</b>	<b>+1.2</b>

### Performance Attribution against S&P EPAC SmallCap Index

Contribution from	Q2 2014	1 year	3 years*	5 years*
Stock Selection	-0.7	+3.7	+0.9	+0.7
Region Allocation	0.0	-1.3	-0.8	+0.7
Timing Residual	-0.1	+0.3	-0.2	-0.7
<b>Difference Relative to S&amp;P EPAC SmallCap Index</b>	<b>-0.8</b>	<b>+2.7</b>	<b>-0.1</b>	<b>+0.7</b>

\*Annualized

\*\*Schroder International Small Companies Fund (SISCO).

\*\*\* S&P EPAC SmallCap Index plus 150 basis points

Source: Schroders, S&P, Factset PA2, gross of fees

Past performance is not an indication of future performance. Please see full disclosures at the end of the presentation

# Performance and Performance Attribution

12 months to 30 June 2014

	SISCO*		S&P EPAC SmallCap		Stock Selection	Regional Allocation	Total Effect
	End Weight	Total Return	End Weight	Total Return			
UK	17.8	36.5	20.3	31.2	1.0	0.1	1.1
Continental Europe	41.5	44.4	43.5	40.6	1.3	-0.1	1.2
Japan	18.2	19.4	21.0	17.9	0.2	0.4	0.6
Pacific ex Japan	14.1	25.0	15.2	17.0	1.2	0.0	1.2
Emerging Markets	5.6	-1.6	-	-	0.0	-0.8	-0.8
Cash	2.8	-	-	-	0.0	-0.9	-0.9
Residual	-	-	-	-			0.3
<b>Total</b>	<b>100.0</b>	<b>32.3</b>	<b>100.0</b>	<b>29.6</b>	<b>3.7</b>	<b>-1.3</b>	<b>2.7</b>

## Top 5 Active Contributors

12 months to June 30, 2014

	Return (%)	Contribution (%)
XING	92.1	0.64
RIB Software	246.5	0.61
MaireTecnimont S.p.A.	78.8	0.39
Borregaard	71.5	0.36
Groupe Eurotunnel	80.8	0.35

\* Schroder International Small Companies Fund (SISCO).

\*\*Stock not owned by the fund. Index return shown.

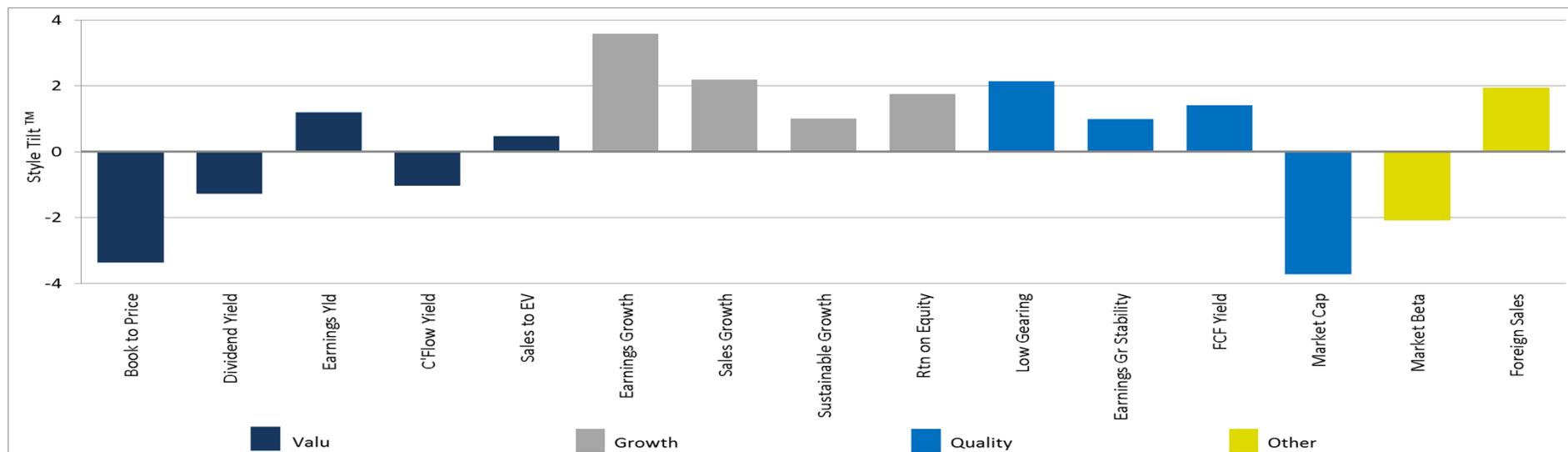
Source: Schroders, S&P, Factset PA2

## Top 5 Active Detractors

12 months to June 30, 2014

	Return (%)	Contribution (%)
TOM TAILOR	-9.9	-0.44
Kapsch Traffic	-2.3	-0.27
Vestas Wind Systems**	255.6	-0.27
Iluka Resources	-15.3	-0.26
BEC World Public	#N/A	-0.25

# Fund\* risk characteristics



<b><u>Predicted Risk</u></b>		<b><u>Active Risk Decomposition (from Style Research)</u></b>	
Tracking Error	3.27%	Stock Specific Factor	51.6%
Beta	0.96	Industrial Sectors	23.1%
Benchmark Volatility	16.9%	Countries (Market)	29.6%
Absolute Fund Volatility	16.5%	Risk Indices	11.9%
(Figures from Style Research unless otherwise stated)		Currency	4.2%
		X-Terms	-20.4%

\* Schroder International Small Companies Fund (SISCO).

Source: Schrodgers Risk Report, Style Research, as at June 30, 2014

Portfolio characteristics are subject to change and should not be viewed as an investment recommendation. Please see full disclosures at the end of the presentation.

# Fund characteristics

## Schroders\* vs S&P EPAC SmallCap Index

As at 30 June 2014

	Schroders*	Index
<b>No of stocks</b>	208	3,296
<b>Free Market Capitalization US\$M</b>		
<b>Minimum</b>	57	24
<b>Maximum</b>	11,879	14,092
<b>Weighted Average</b>	2,006	2,814
<b>Median</b>	952	443

Valuation factors	Schroders*	Index
<b>P/E (12mo trailing)</b>	16.1	16.5
<b>P/CF</b>	10.9	10.6
<b>P/BV</b>	2.0	1.5
<b>LT Debt/Capital</b>	22.2	29.1
<b>ROE</b>	14.1	11.1

	Schroders*	Index
<b>Percentage &gt;\$3Bn</b>	22.5%	31.5%
<b>Percentage &gt;\$1Bn &lt;\$3Bn</b>	31.0%	35.7%
<b>Percentage &gt;\$0.5Bn &lt;\$1Bn</b>	25.3%	17.2%
<b>Percentage &lt;\$0.5Bn</b>	21.2%	15.6%
<b>Total</b>	100.0%	100.0%

Valuation factors	Schroders*	Index
<b>3 Year Sales Growth</b>	8.7	7.0
<b>3 Year Earnings Growth</b>	17.8	11.6
<b>Dividend Payout Ratio</b>	32.3	35.8
<b>Dividend Yield</b>	2.0	2.2

\* Schroder International Small Companies Fund (SISCO).  
Source: Schroders, Style Research, Factset

# Investment strategy:

## Country weightings

We remain underweight continental Europe. Growth continues to be on a modestly improving trend, but in aggregate remains under 2%. Credit expansion is very anaemic even though interest rates in the peripheral markets have continued to converge with those of the core markets. Pricing power is elusive, and incipient deflationary forces are being aggravated by continued propensity to save in Germany (and fiscal tightening) and the strength of the euro. The ECB is clearly aware of the challenges as reflected in the measures taken in June, but their effectiveness is unclear. Within the portfolios, we have been shifting away from cyclical growth towards companies offering greater visibility and those that can successfully benefit from the divestment of assets out of banking and public sector ownership. We have reduced consumer cyclicals (though remain overweight) and materials, and added to energy and financials.

Economically, the United Kingdom is in a sweet spot. Previous devaluation of sterling, low interest rates (feeding directly into households via reduced mortgage costs) and a feel good factor from buoyant property prices (at least in the South-East) has taken growth expectations to almost 3% for 2014. Productivity growth remains lacklustre (but may well reflect the inflow of labour from the rest of Europe prepared to accept lowly paid service sector employment) and private capex reflects corporate caution, perhaps a function of rising political uncertainty. We remain underweight, although added modestly over the quarter reflecting the extent to which small caps have corrected somewhat indiscriminately.

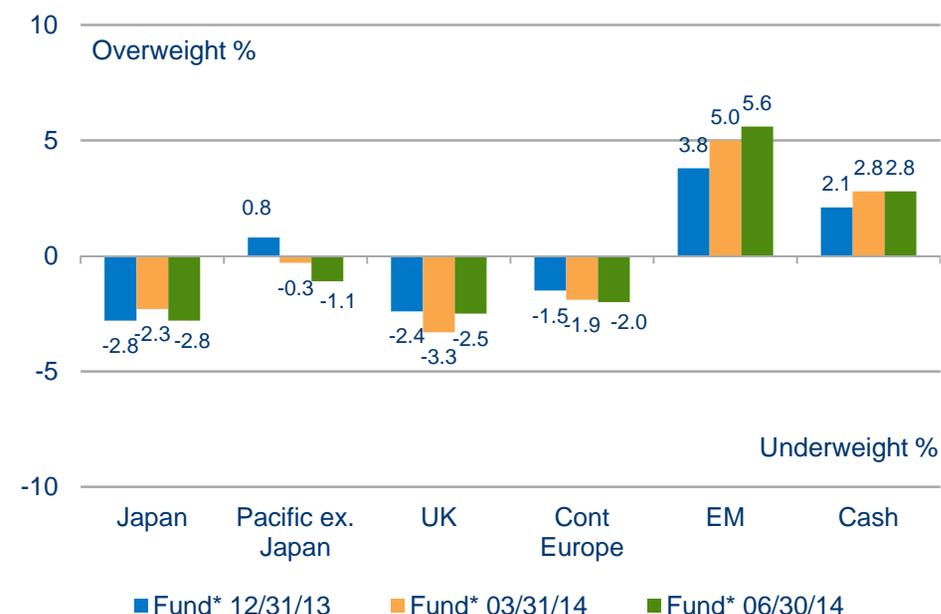
Japan has recovered smartly, and has been the one place where small caps have outperformed. Sentiment had arguably become overly pessimistic in anticipation of the impact of the sale tax increase. There have been few bits of positive news on the policy or macro fronts with wage increases modest and the BoJ on hold. The Fund remains underweight (most notably in financials). The key remains the extent of any increase in shareholder focus among Japanese corporates.

Little change in weight overall to Pacific ex Japan Emerging Markets, but some shifts within the allocation. Exposure to developed markets was reduced, with cuts to consumer cyclicals and materials. Addition to Emerging markets was primarily focused on Taiwan balanced partly by selective sales in ASEAN. We continue to look to build up exposure to the region, but the unwinding of the credit/real estate excess in China remains the biggest risk both in fundamental terms and for sentiment.

\* Schroder International Small Companies Fund (SISCO).

Source: Schroders, S&P. Regional weights are subject to change and should not be viewed as an investment recommendation. This slide contains the views of the International Small Cap Team. These views are subject to change and do not necessarily represent the views of Schroders

## Measured against S&P EPAC SmallCap Index



Fund* weight % at 06/30/14					
18.2	14.1	17.8	41.5	5.6	2.8
Index weight % at 06/30/14					
21.0	15.2	20.3	43.5	-	-

# Portfolio positioning

## Country Sector Matrix

### S&P EPAC SmallCap Index as of 30 June 2014

	Total	Consumer Discretionary	Consumer Staples	Energy	Financials	Healthcare	Industrials	IT	Materials	Telecoms	Utilities
Cont. Europe	43.5	5.1	2.5	0.9	9.9	3.5	11.6	4.2	3.9	0.6	1.3
EM	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Japan	21.0	4.1	1.8	0.1	3.9	1.3	5.5	2.3	1.9	0.0	0.1
Pacific ex Japan	15.2	3.4	1.0	0.6	3.3	1.2	2.2	1.2	1.8	0.3	0.4
UK	20.3	4.5	0.8	0.9	5.2	0.5	4.6	1.4	1.5	0.4	0.4
<b>Total</b>	<b>100.0</b>	<b>17.0</b>	<b>5.9</b>	<b>2.5</b>	<b>22.4</b>	<b>6.5</b>	<b>23.9</b>	<b>9.2</b>	<b>9.2</b>	<b>1.3</b>	<b>2.2</b>

### SISCO\*\*\* as of 30 June 2014

	Total	Consumer Discretionary	Consumer Staples	Energy	Financials	Healthcare	Industrials	IT	Materials	Telecoms	Utilities
Cont. Europe	41.5	6.3	2.7	0.9	7.2	4.5	8.0	6.4	3.7	1.1	0.6
EM	5.6	2.1	0.0	0.0	1.6	0.7	0.6	0.6	0.0	0.0	0.0
Japan	18.2	3.2	1.5	0.4	1.7	0.7	5.2	2.2	3.3	0.0	0.0
Pacific ex Japan	14.1	4.7	1.2	0.0	1.2	0.8	2.7	1.5	2.0	0.0	0.0
UK	17.8	3.5	0.3	2.0	2.9	0.5	6.2	1.6	0.8	0.0	0.1
<b>Total*</b>	<b>97.2</b>	<b>19.8</b>	<b>5.7</b>	<b>3.2</b>	<b>14.6</b>	<b>7.2</b>	<b>22.7</b>	<b>12.3</b>	<b>9.8</b>	<b>1.1</b>	<b>0.7</b>

### SISCO\*\*\* vs. S&P EPAC Small Cap Index

	Total	Consumer Discretionary	Consumer Staples	Energy	Financials	Healthcare	Industrials	IT	Materials	Telecoms	Utilities
Cont. Europe	-2.0	1.2	0.2	0.0	-2.8	1.0	-3.5	2.1	-0.2	0.5	-0.7
EM	5.6	2.1	0.0	0.0	1.6	0.7	0.6	0.6	0.0	0.0	0.0
Japan	-2.8	-0.9	-0.3	0.2	-2.2	-0.6	-0.3	-0.1	1.4	0.0	-0.1
Pacific ex Japan	-1.1	1.4	0.2	-0.6	-2.1	-0.4	0.6	0.3	0.2	-0.3	-0.4
UK	-2.5	-1.0	-0.5	1.0	-2.3	0.0	1.5	0.2	-0.7	-0.4	-0.3
<b>Total**</b>	<b>-2.8</b>	<b>2.8</b>	<b>-0.2</b>	<b>0.7</b>	<b>-7.8</b>	<b>0.7</b>	<b>-1.2</b>	<b>3.1</b>	<b>0.7</b>	<b>-0.2</b>	<b>-1.4</b>

\* Cash 2.8%

\*\* Difference due to 2.8% cash weighting

\*\*\* Schroder International Small Companies Fund (SISCO).

Source: Schroders, S&P.

# Recent Stock Transactions

SISCO\*

## Significant New Buys since March 31, 2014

Security	Country	Weight June 30, 2014 %
Cerved Information Solutions	Italy	0.5
Applus Services	Spain	0.5
Gourmet Master	Taiwan	0.4
Asaleo Care	Australia	0.4
Interroll Holding	Switzerland	0.4
Redrow Plc	United Kingdom	0.3
Supergroup Plc	United Kingdom	0.3
Finecobank S.P.A	Italy	0.3
Homeserve Plc	United Kingdom	0.3
Toung Loong Textile	Taiwan	0.2

## Significant Complete Sales since March 31, 2014

Security	Country	Weight March 31, 2014 %
Saft Groupe	France	0.6
Minth Group	China	0.6
Mayr-Melnhof Karton	Austria	0.4
Shenzhou International	China	0.4
Rosenbauer International	Austria	0.2
Pt Express	Indonesia	0.2
VGI Global Media	Thailand	0.2
Talktalk Telecom	United Kingdom	0.2
Sembcorp Marine	Singapore	0.2
Robinsons Retail	Philippines	0.2

\* Schroder International Small Companies Fund (SISCO).  
Source: Schroders

# SISCO\*

## Top ten holdings by region – June 30, 2014

### Europe

Country	Security	Weight in fund %	Weight in region %
Germany	Xing Ag	1.4	3.4
Netherlands	Delta Lloyd	1.3	3.2
Germany	Tipp24 Se	1.3	3.0
Ireland	Smurfit Kappa	1.3	3.0
Sweden	Intrum Justitia	1.2	2.9
France	Groupe Eurotunnel	1.2	2.8
Germany	Tom Tailor	1.2	2.8
Norway	Borregaard Asa	1.2	2.8
Ireland	Glanbia Plc	1.1	2.7
Germany	Freenet Ag	1.1	2.7
<b>Total</b>		<b>12.3</b>	<b>29.3</b>

### Japan

Country	Security	Weight in fund %	Weight in region %
Japan	Nitta Corporation	0.9	4.7
Japan	Trusco Nakayama	0.8	4.3
Japan	Jsp Corporation	0.7	4.0
Japan	Nec Networks	0.7	3.9
Japan	Koito Manufacturing	0.7	3.8
Japan	Tokai Tokyo Financial	0.7	3.7
Japan	Eagle Industry	0.7	3.7
Japan	Arcs Company,	0.6	3.5
Japan	Nihon Parkerizing	0.6	3.5
Japan	Kureha Corporation	0.6	3.3
<b>Total</b>		<b>7.0</b>	<b>38.4</b>

### UK

Country	Security	Weight in fund %	Weight in region %
UK	Grainger Plc	0.7	3.8
UK	Dcc Plc	0.7	3.8
UK	Grafton Group	0.7	3.6
UK	Ws Atkins	0.6	3.6
UK	Ashtead Group	0.6	3.3
UK	Halma P.L.C.	0.6	3.1
UK	Investec Plc	0.5	3.0
UK	Dechra Pharmaceuticals	0.5	2.9
UK	Kier Group	0.5	2.7
UK	Daily Mail	0.5	2.6
<b>Total</b>		<b>5.9</b>	<b>32.4</b>

### Asia ex. Japan, Emerging Markets

Country	Security	Weight in fund %	Weight in region %
Hong Kong	Techtronic Industries	1.2	6.1
Hong Kong	Johnson Electric	0.9	4.8
South Korea	Hankook Tire	0.9	4.6
Australia	Mirvac Group	0.7	3.7
Australia	Computershare Limited	0.7	3.5
Australia	Ansell Limited	0.7	3.4
Taiwan	Chroma Ate	0.6	3.3
South Korea	Halla Visteon	0.6	3.3
Malaysia	Bursa Malaysia	0.6	2.9
Australia	Iluka Resources	0.5	2.8
<b>Total</b>		<b>7.4</b>	<b>38.4</b>

\* Schroder International Small Companies Fund (SISCO).  
Source: Schroders

# Investment Outlook and Strategy



**Schroders**

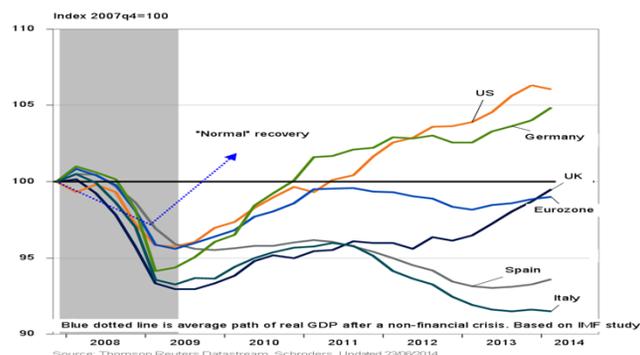
# Overview

## Earnings the key

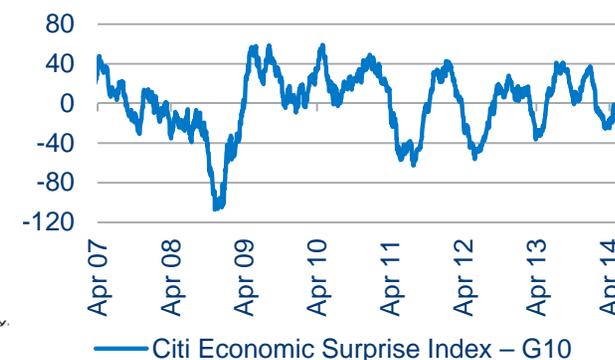
### Tailwinds

- Global economy slowly healing and rebalancing
- Companies are in good shape (strong cash flow)
- Conditions in place for sustainable investment cycle
- Valuations reasonable

### GDP since the crisis<sup>1</sup>



### Global economic data upside – surprises to recover?<sup>2</sup>



### Headwinds

- Tapering
- ]China in transition
- Impact of weak yen?
- Politics continue to be important

### EPS growth<sup>3</sup>



### Earnings revisions<sup>3</sup>



<sup>1</sup>Source: Thomson Datastream, Schrodgers. Updated June 23, 2014

<sup>2</sup>Source: Thomson Datastream. 31 July 2014

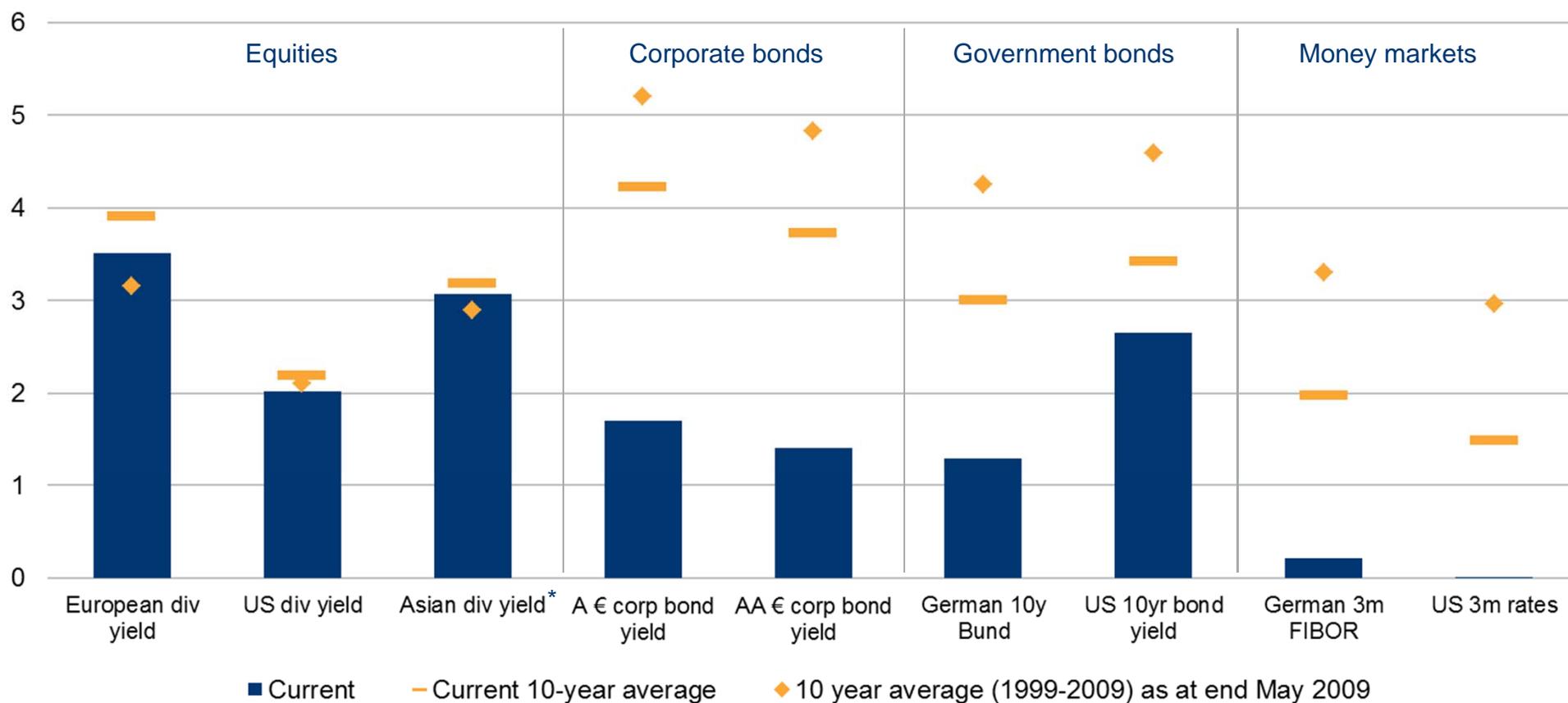
<sup>3</sup>Source: FactSet MSCI. 31 July 2014

# Overview

Cheap money and the hunt for yield is working its way across the asset classes

## Current yield versus 10-year average

(%)



Source: UBS, MSCI. Current yields as at 4 July 2014, 10 year average 2009 as at end May 2009. \*Asia div yield as at end June 2014

# Small Cap Valuations

- Small caps offer good value by historic standards based on cyclically adjusted PERs and Price to book value
- Compared to large cap peers, valuations are reasonable, but not particularly attractive
- Although European small caps have performed strongly in absolute and relative terms Pacific and Emerging small cap have been significant laggards

## S&P EPAC SmallCap Index vs. MSCI EAFE Index<sup>1</sup>

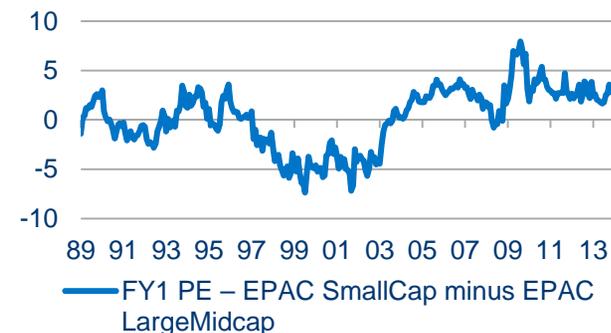
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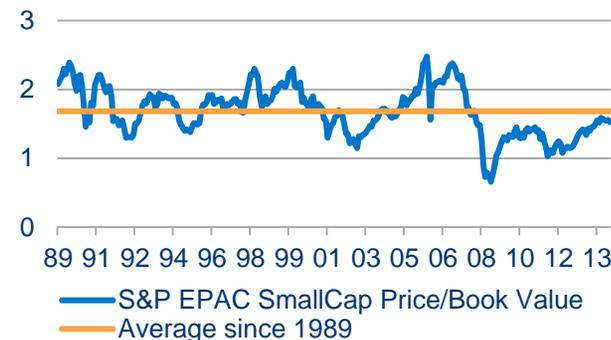
## Still attractive on cyclically adjusted basis<sup>3</sup>



## FY1 PE – S&P EPAC SmallCap minus S&P EPAC LargeMidCap<sup>2</sup>



## and not extended on Price/Book Value<sup>3</sup>



<sup>1</sup>Source: Schroders, S&P, MSCI, 31 July 2014

<sup>2</sup>Source: Schroders, FactSet PA2, S&P, 31 July 2014

<sup>3</sup>Source: Schroders, S&P, 31 July 2014

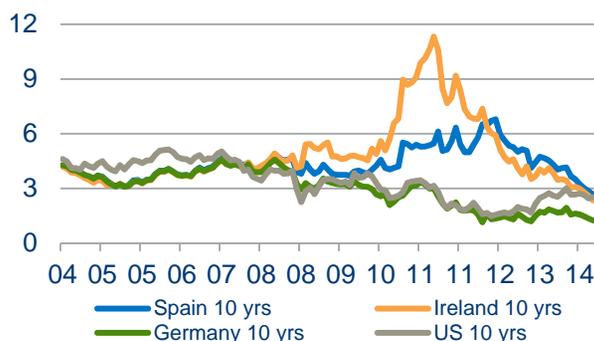
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# Investment Outlook

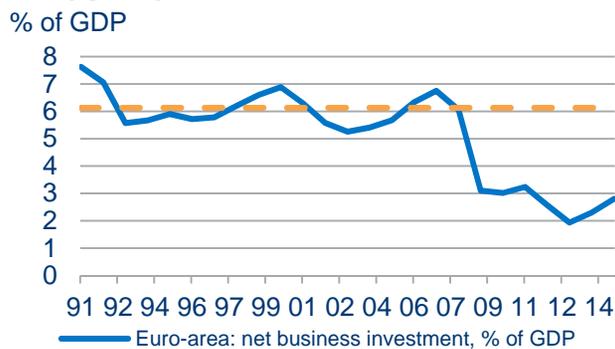
## Continental Europe

- Market consensus is that ECB has done enough to stabilize the euro, and in short-term peripheral yields are being compressed
- Internal trade balances are moving in right direction for periphery, but symptomatic of sharply slower economic activity
- Europe still offers pockets of real value at a stock level conditioning only a modest underweighting

**Peripheral yields have collapsed<sup>1</sup>**



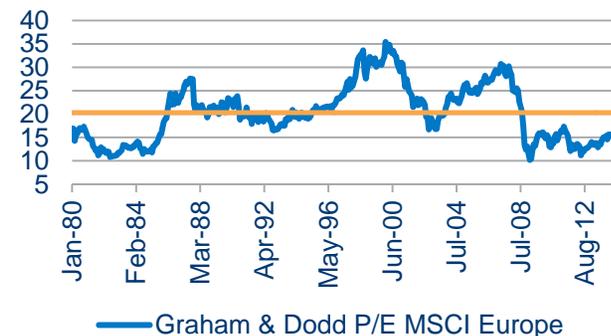
**Euro-area: net business investment<sup>3</sup>**



**Eurozone's external performance at record high<sup>2</sup>**



**Europe cheap on long term measure<sup>4</sup>**



<sup>1</sup>Source: Thomson Datastream, Schroders. Updated June 2014

<sup>2</sup>Source: Thomson Datastream, Eurostat, Schroders. Updated June 2014

<sup>3</sup>Source: Credit Suisse, August 2014

<sup>4</sup>Source: Thomson Datastream as at 31 May 2014, Schroders

# Investment Outlook

## Continental Europe – the bottom-up case

Company Classification	Examples			
<b>High Quality Growth</b>	Tipp24	1.3%	Eurofins Scientific Korian-Medica	0.6% 0.6%
	Borregaard	1.2%		
	Sartorius	0.7%		
<b>Periphery Misnomers</b>	Smurfit Kappa	1.3%	Prysmian IFG Group	0.4% 0.4%
	Amplifon	0.8%		
	Paddy Power	0.5%		
<b>“Rare” Assets</b>	Xing	1.4%	Kapsch Trafficcom RIB Software CTS Eventim	0.9% 0.6% 0.3%
	Groupe Eurotunnel	1.2%		
	Lectra	1.1%		
<b>Compelling Value</b>	Delta Lloyd	1.3%	Helvetia StoreBrand	1.1% 1.1%
	freenet	1.1%		

Source: Schroders June 30, 2014. Weights based on Schroder International Small Companies Fund (SISCO). Stocks held and weights are subject to change and should not be viewed as an investment recommendation.

Regions and securities are mentioned for illustrative purposes only and should not be viewed as a recommendation to buy/sell.

The securities shown were/are holdings in the strategy but the timing of purchases, size of position and the return may vary amongst portfolios within the same strategy. A list of all recommendations made for the strategy within the immediately preceding period of not less than one year will be provided upon written request. You should not assume that recommendations made in the future will be profitable or will equal the performance of the security discussed above.

# Investment Outlook

## United Kingdom

- Small cap performance has been remarkable over the last two years
- BoE committed to loose policy but economic expectations are up sharply
- Continued low interest rates are key; Household finances still fragile
- Outlook for housing looks favourable but becoming an overt political tool

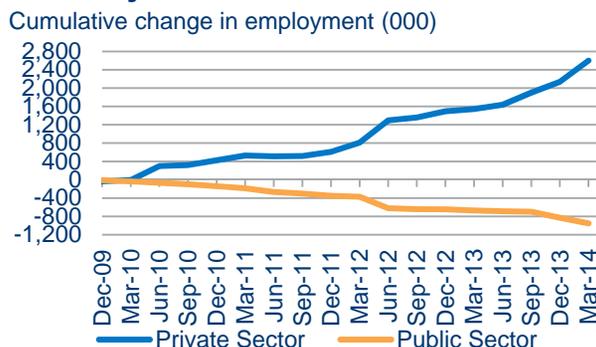
### UK smaller companies outperformance<sup>1</sup>



### UK PMI has picked up<sup>2</sup>



### Private sector continues to create jobs<sup>3</sup>



### Housing has supported retail sales<sup>4</sup>



<sup>1</sup>Source: Factset. July 31, 2014

<sup>2</sup>Source: Bloomberg, 31 July 2014

<sup>3</sup>Source: Thomson Datastream, Schrodgers, Updated June 2014

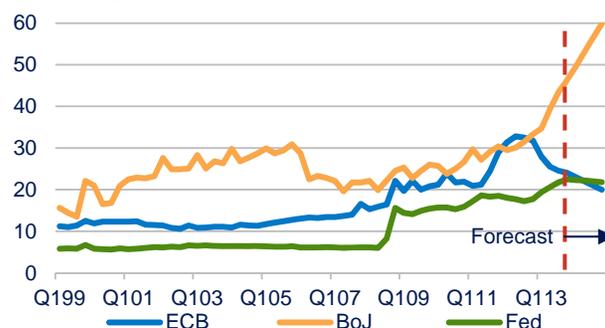
<sup>4</sup>Source: Thomson Datastream, Updated June 2014

# Investment Outlook

## Japan

- “Abenomics” a vast experiment in the power of money printing. Can it address entrenched structural issues
- At least temporarily, inflation has responded, and there is some evidence of change in expectations
- Massive fiscal stimulation – not a radical departure from tradition
- Tough “third arrow” measures remain the issue

**Major central bank balance sheets<sup>1</sup>**



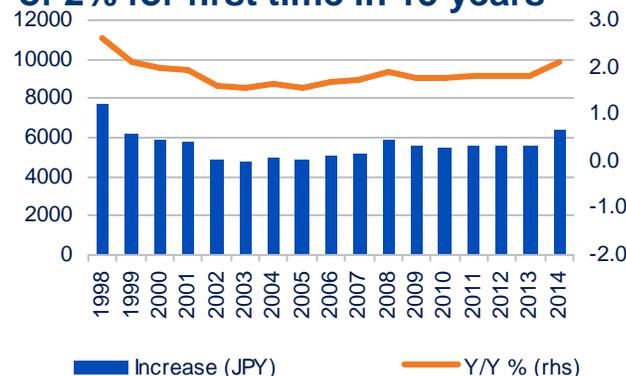
**Topix and Yen exchange rate<sup>2</sup>**



**Inflation up<sup>3</sup>**



**Spring wage increases in excess of 2% for first time in 15 years<sup>4</sup>**



Source:

<sup>1</sup>Source: BoJ, ECB, Fed, Datastream and Daiwa Capital Markets Europe Ltd. Updated February 2014

<sup>2</sup>Source: Thomson Datastream, 30 June 2014

<sup>3</sup>Source: Thomson Datastream. Updated June 2014

<sup>4</sup>Source: Nikkei. Survey of 227 large companies by Nikkei. As at 31 March 2014

# Investment Outlook

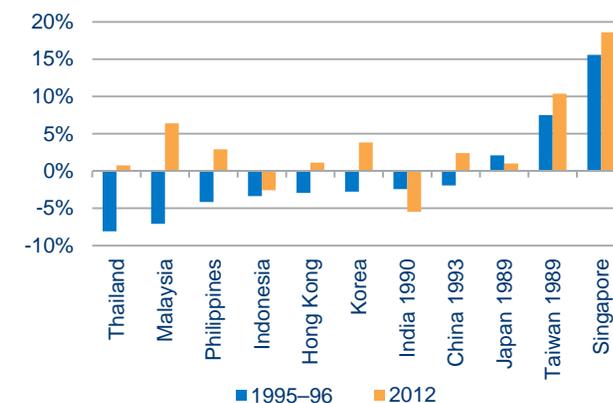
## Asia ex Japan/Emerging Markets

- Emerging Markets recovery has lagged developed but Asia remains exposed to global growth
- External fundamentals of the region are generally strong in terms of FX reserves and current accounts
- Valuations have returned to very attractive levels
- ASEAN well through transition. China some way behind – and key for regional sentiment

**Emerging have lagged the developed recovery<sup>1</sup>**



**Current Account Balance as % of GDP<sup>2</sup>**



**Asia has de-rated versus global indices despite a similar earnings profile<sup>3</sup>**



**Price to book value (x)<sup>4</sup>**



<sup>1</sup>Source: Markit, Schroders. 29 May 2014.

<sup>2</sup>Source: DSG Asia, May 2013

<sup>3</sup>Source: FactSet, Thomson Datastream, as at 30 June 2014

<sup>4</sup>Source: Citi Investment Research, 31 May 2014

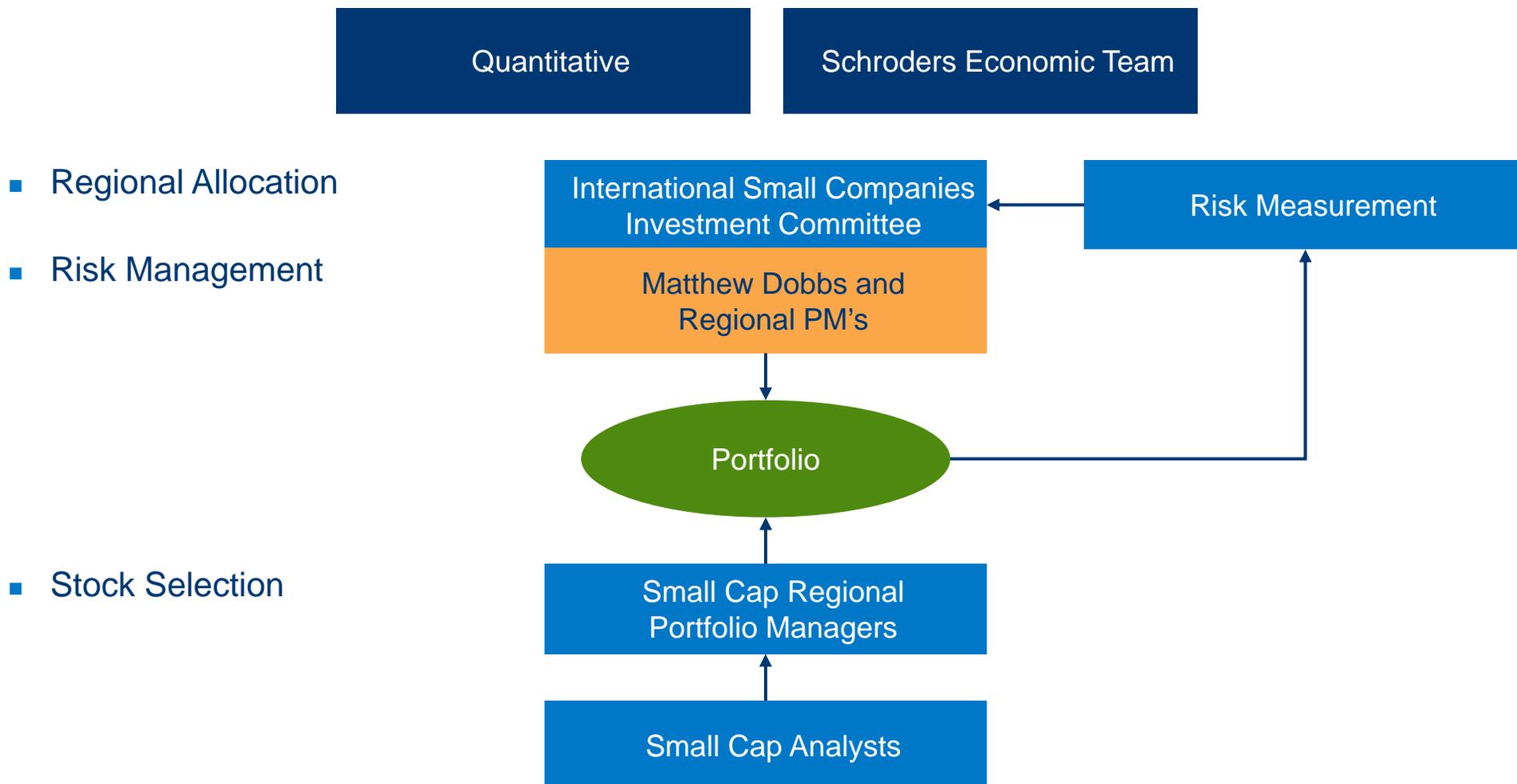
# Appendix



**Schroders**

# Investment process

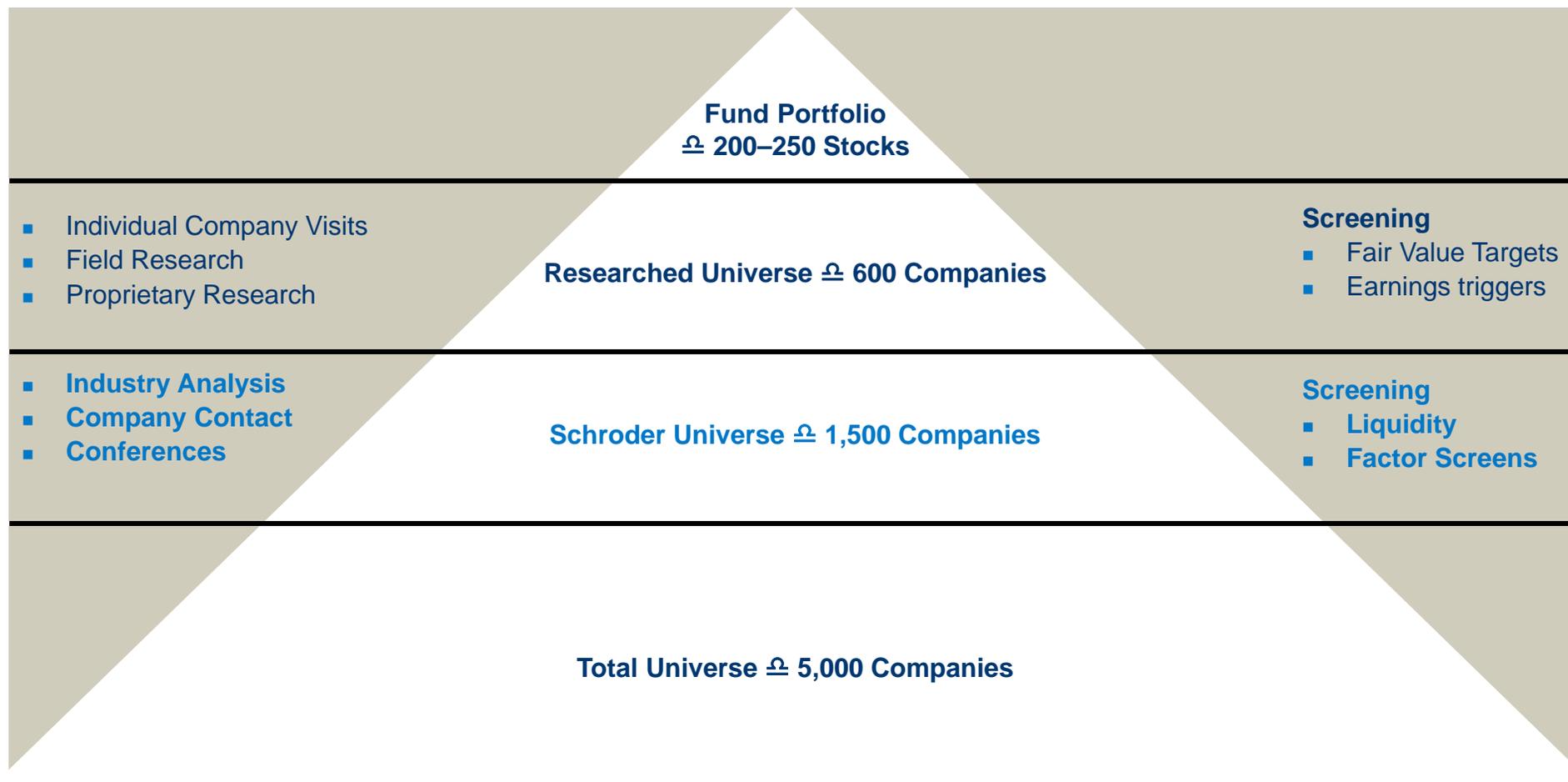
## Overview



Source: Schrodgers as of June 30, 2014

# Investment process

## Stock selection



Source: Schroders as of June 30, 2014

# Investment process

## Factor screens help define Schroder universe

- Concentrate investments in quintiles 1 and 2
- Source new ideas
- Challenge views on stocks held in quintiles 4 and 5

The equally weighted metrics underlying each criterion are:

Criterion	Metrics
Growth	EPS revisions Revisions ratio
Quality	ROE ROA Change in ROE (year on year)
Value	Earnings yield

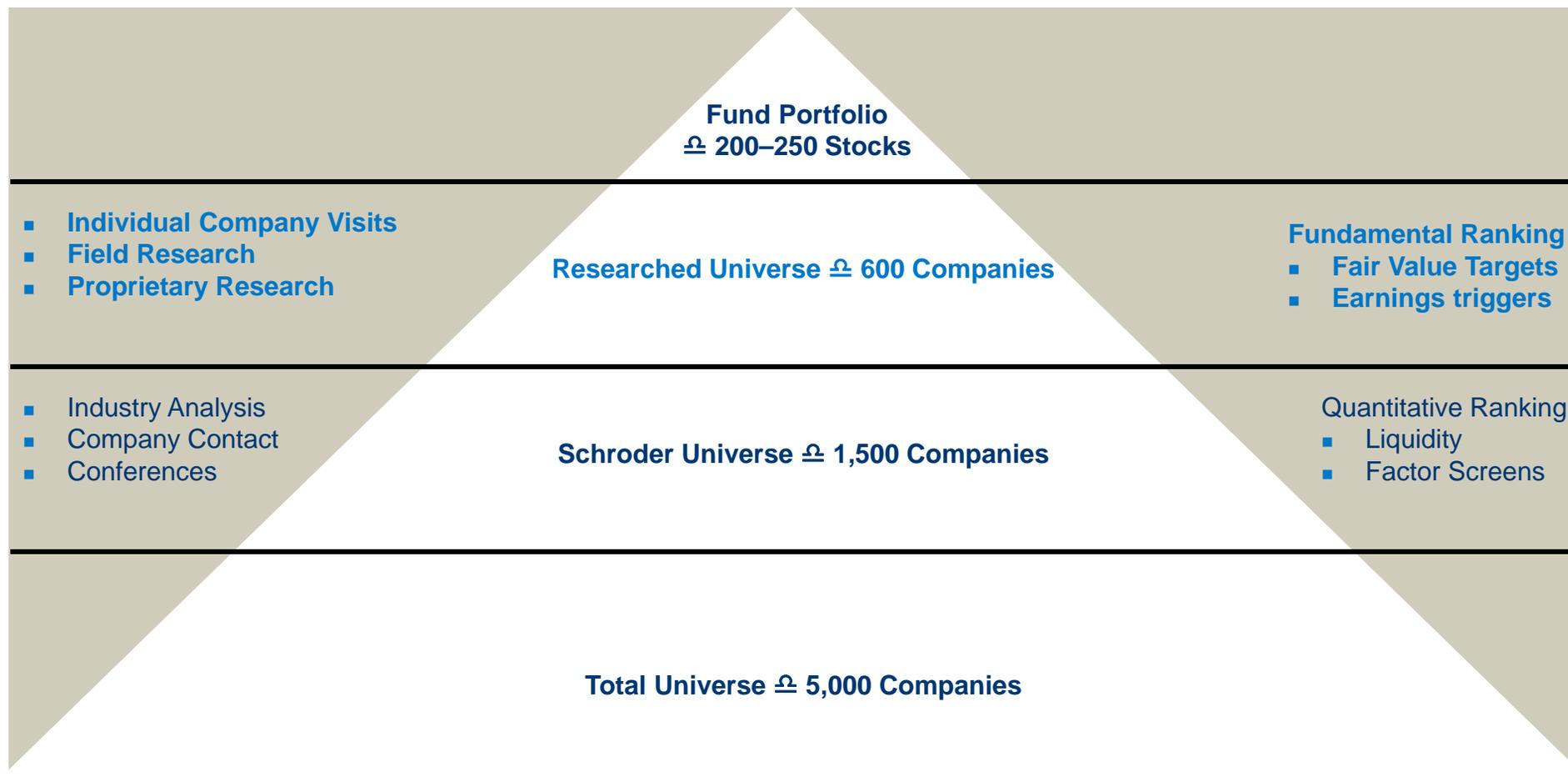
Pan-Europe - December 31, 2013				VALUE				QUALITY				EARNINGS										
Company Symbol	Company Name	SEDOL Number	Country	% Rank COMBINED (OVERALL)	COMBINED SCORE (1-4)	Market Cap (Euros, Millions)	Price (Euros)	% Rank VALUE (OVERALL)	PE Ratio (FY1 earnings)	% Rank Earnings Yld (=1/PE)	% Rank QUALITY (OVERALL)	ROE (%) (trailing earnings)	% Rank ROE	Return on Total Assets (%)	% Rank ROA	Change in ROE (% per annum)	% Rank Change in ROE	% Rank EARNINGS (OVERALL)	EPS Revisions (%)	EPS Revisions	Revisions Ratio (%)	% Rank Revisions Ratio
B6632T	Bakkafrost P/F	B6632T	DENMARK	1	1	550	11.3	3	7.7	3	1	44.7	4	11.2	11	13.5	7	28	-0.7	53		22
B64G90	Beazley PLC	B64G90	UNITED KINGDOM	1	1	1,742	3.3	9	10.1	9	12	18.8	21	4.3	43	2.6	23	2	22.8	5	11.1	10
009049	Bellway p.l.c.	009049	UNITED KINGDOM	1	1	2,368	19.4	19	12.8	19	17	9.2	53	6.6	27	4.2	15	4	4.1	19	57.1	1
B64NSP	Costain Group PLC	B64NSP	UNITED KINGDOM	1	1	224	3.3	7	9.2	7	5	73.8	2	6.2	29	2.2	25	1	17.4	6	33.3	3
B635TG	EnQuest PLC	B635TG	UNITED KINGDOM	1	1	1,313	1.6	5	9.0	6	19	32.5	7	14.9	6	-6.7	87	2	12.7	8	18.8	6
B94Y1F	Hiscox Ltd	B94Y1F	UNITED KINGDOM	1	1	2,935	8.3	11	10.8	11	11	15.9	28	5.5	34	3.8	17	5	6.8	14	15.0	8
469191	Leroy Seafood Group ASA	469191	NORWAY	1	1	1,157	21.2	6	8.9	6	8	20.4	18	4.1	45	12.5	7	13	0.4	35	11.1	10
B39HW2	Metall Zug AG Class B	B39HW2	SWITZERLAND	1	1	502	1,967.7	9	10.1	9	23	8.0	57	3.7	48	145.6	2	1	73.0	2	100.0	1
458971	Nolato AB Class B	458971	SWEDEN	1	1	387	16.4	16	12.6	17	4	25.1	13	6.9	26	7.4	10	8	6.4	15		17
B1W5NW	SalMar ASA	B1W5NW	NORWAY	1	1	1,004	8.9	3	7.9	3	3	43.0	4	6.2	30	17.2	6	31	-3.1	68	11.1	11

Source: Schroders

The security information shown is for illustrative purposes, is subject to change, and is not a recommendation to buy/sell. Past performance is no guarantee of future results  
The value of an investment can go down as well as up and is not guaranteed

# Investment process

## Stock selection



Source: Schroders as of June 30, 2014

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# Investment process

## What we look for in investments

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### Quantitative

#### Sustainable Growth

- High real EPS growth
- Visibility of earnings
  - Strong product or service franchise
  - Strong market share
  - Beneficiary of structural change
- Limited financing risk

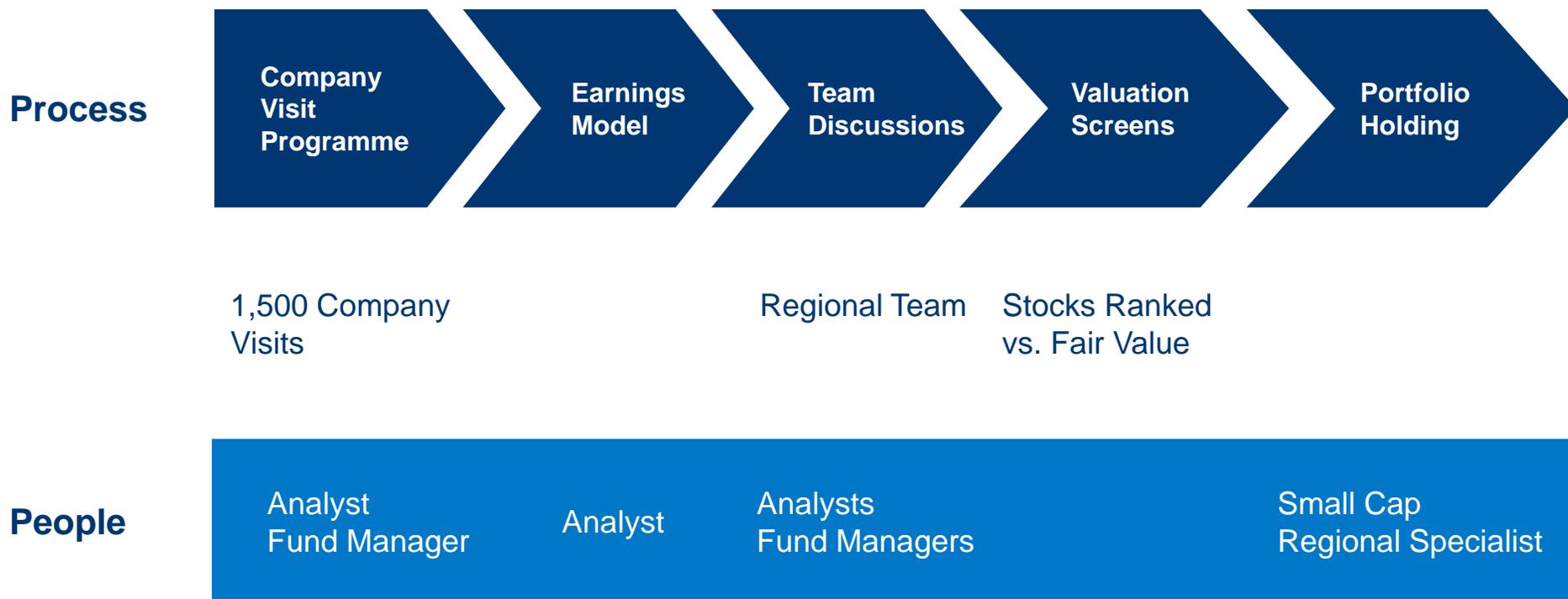
### Qualitative

#### Management Assessment

- Interest in shareholder value
- Focused strategy
- Sound business practices
- Historic record of success
- Length of time with company

# Investment process

## Building stock portfolios



Source: Schroders as of June 30, 2014

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# Investment process

## Sell discipline

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**Our methodology seeks to identify holdings that offer poor relative potential and in which conviction is low**

**The decision to sell a position may be based on:**

- Position reaches fair value target price
- Opportunity cost perceived in comparison to alternative investment
- Fundamental deterioration makes original target price no longer appropriate

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# Investment process

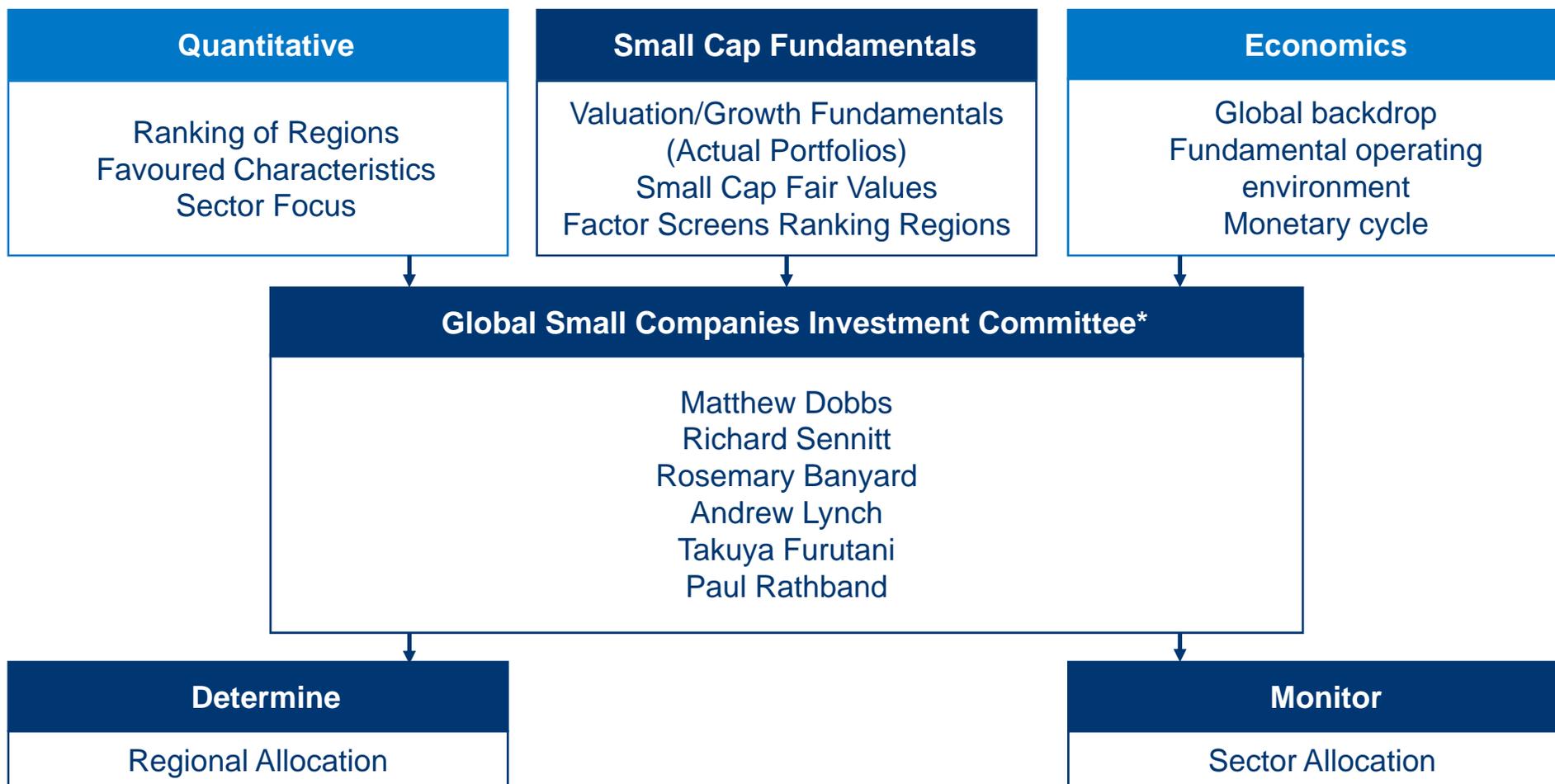
## Portfolio construction – Overview

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- Smallcap regional portfolio managers have primary responsibility for regional portfolio construction
- Regional and Sectoral weightings are reviewed by smallcap team to ensure compliance of overall portfolio with
  - Regional Allocation targets
  - Risk/Return expectations
  - Avoidance of unintended biases (i.e. sector over-concentration)
- Supplemented by ongoing monitoring of overall portfolio by Matthew Dobbs

# Investment process

## Portfolio construction – Regional allocation



\* Source: Schroders as of June 30, 2014

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# Investment process

## Controlling portfolio risk

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**PRISM brings together alternative risk measurement and management tools into a single report**

- Online
- Interactive

**PRISM integrates both internal and external tools**

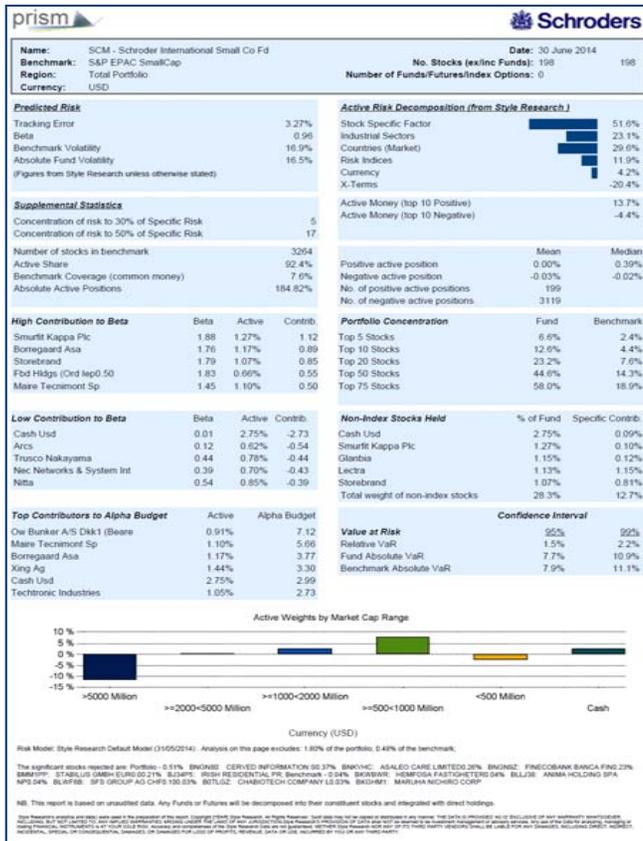
- Risk analysis
- Characteristics analysis
- Other statistical measures

**The PRISM Risk Report identifies active risk and the sources of risk by decomposing active portfolio positions into Stock Specific/Sector and Style factors**

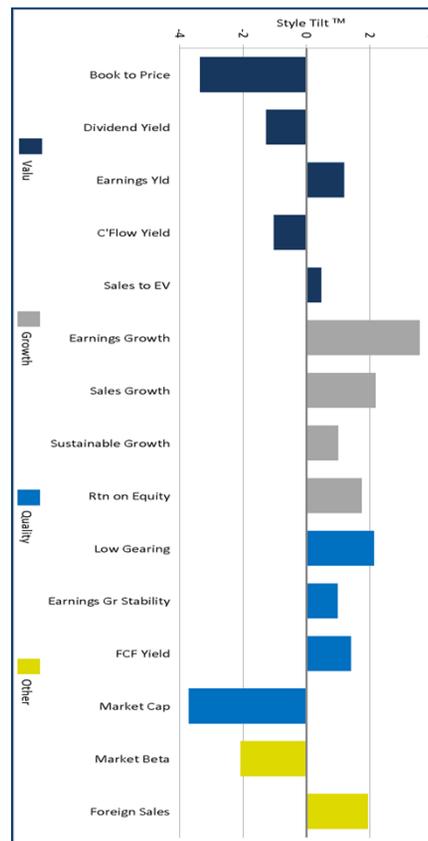
# Investment process

## Portfolio risk investment strategy manager – overview

### Overview



### Characteristics



### Stock Detail



The security and portfolio information shown is for a representative account within the Schroder US International Small Cap Fund Composite. The information is intended to illustrate the risk management process and should not be viewed as a recommendation to buy/sell. See the Composite Disclosure and Performance information at the end of this presentation

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# Risk management

## Risk management guidelines

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- Cash not to exceed 5% of the value of a portfolio
- Stock weights: No formal limits, but generally between +/- 2% relative to the benchmark
- Sector weights: No formal limits, but generally between +/- 7% relative to benchmark
- Country weights: No formal limits, but generally between +/- 7% relative to the benchmark
- Emerging Markets subject to client preference
- Derivatives: Not used

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# Important Information

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Risks associated with International Small Companies: All investments involve risks including the risk of possible loss of principal. The market value of a fund's 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 in foreign securities, may magnify risks due to changes in foreign exchange rates and the possibility of substantial volatility due to political and economic uncertainties in foreign countries. Investments in small capitalization companies generally carry greater risk than is customarily associated with larger capitalization companies, which may include, for example, less public information, more limited financial resources and product lines, greater volatility, higher risk of failure than larger companies, and less liquidity

The views and forecasts contained herein are those of the International Small Cap team and are subject to change. The information and opinions contained in this document have been obtained from sources we consider to be reliable. No responsibility can be accepted for errors of facts obtained from third parties. Reliance should not be placed on the views and information in the document when taking individual investment and/or strategic decisions

The opinions stated in this presentation include some forecasted views. We believe that we are basing our expectations and beliefs on reasonable assumptions within the bounds of what we currently know. However, there is no guarantee that any forecasts or opinions will be realized

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## **Performance Figures**

Performance figures are presented on a "gross basis" not reflecting the deduction of investment advisory fees

## **Index Benchmark Comparison**

Performance is compared to the S&P EPAC SmallCap Index (prior to October 1st 2008 the index name was S&P/Citigroup EMI EPAC), a widely accepted benchmark for International equity accounts. This index is unmanaged and does not reflect the deduction of any fees or expenses

## **Past Performance**

The returns presented represent past performance and are not necessarily representative of future returns which may vary. The value of investments can fall as well as rise as a result of market or currency movements

## **Opinions**

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September 2014