

Schroder GAIA Paulson Merger Arbitrage

A Accumulation Share Class

Fund Launch Date

25 June 2014

Total Fund Size (Million)

USD 57.7

Share Price End of Month (USD)

50.47

Fund Manager

John Paulson (Paulson)

Investment Objective and Policy

The fund aims to provide capital growth.

The fund may take long and short positions in shares, bonds and related derivative instruments in companies worldwide that are involved in mergers and other corporate events. The fund is not constrained by company size or sector. The fund applies a broad definition of what constitutes merger arbitrage – the manager considers all types of merger and acquisition transactions and other types of events such as corporate reorganisations, bankruptcies and liquidation scenarios. For example, the fund will take a long position in a company involved in a merger and acquisition transaction capturing the discount between the offer price and the target company's share price. For deals that appear particularly weak the fund may take a short position in a company involved in the transaction. The fund also participates in potential takeovers by establishing long positions in companies that are strategically attractive in consolidating industries. The fund may invest in less liquid, low or unrated securities or defaulted debt instruments. Investments in distressed securities will not exceed 20% of the Net Asset Value of the Fund. The fund may also invest in other financial instruments (including convertible bonds and warrants) and hold cash on deposit. Derivatives may be used to achieve the investment objective and to reduce risk or manage the fund more efficiently. The fund may use leverage. Recommendation: Investors should seek independent advice and satisfy themselves that they have an understanding of the techniques employed by the manager.

Performance Analysis

Performance (%)	1 month	3 months	YTD	1 year	5 years	Since Launch	Average p.a. since launch
Fund	-3.6	-3.2	-7.6	-26.2	---	-49.6	-17.0

Monthly Returns (%)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year End
2016 Fund	-3.3	-4.7	-7.3	-1.1	-1.9	-4.6	3.7	0.1	-3.5	-4.7	2.0	-0.9	-23.6
2017 Fund	-0.0	1.7	-4.8	0.8	-2.7	0.5	1.1	-9.0	-3.4	-4.8	-4.0	4.8	-18.7
2018 Fund	-4.2	-3.6	---	---	---	---	---	---	---	---	---	---	---

Discrete Yearly Performance (%)	Q4/2016 - Q4/2017	Q4/2015 - Q4/2016	Q4/2014 - Q4/2015	Q4/2013 - Q4/2014	Q4/2012 - Q4/2013
Fund	-18.7	-23.6	-4.3	---	---

Performance Since Launch (%)



The return received may rise or fall as a result of currency fluctuations.

Past performance is not a reliable indicator of future results, prices of shares and the income from them may fall as well as rise and investors may not get back the amount originally invested.

All fund performance data are on a NAV to NAV basis, net income reinvested. Data is not available for the time periods with no % growth stated. In case a share class is created after the fund's launch date, a simulated past performance is used, based upon the performance of an existing share class within the fund, taking into account the difference in the ongoing charges and the portfolio transaction costs, and including the impact of any performance fees if applicable.

Source: Schroders

Prospective investors should consult with their independent financial advisor with respect to their specific investment objectives, financial situation or particular needs to determine the suitability of investment.



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Risk Considerations

- **ABS and MBS risk:** Mortgage or asset-backed securities may not receive in full the amounts owed to them by underlying borrowers.
- **Counterparty risk:** The counterparty to a derivative or other contractual agreement or synthetic financial product could become unable to honour its commitments to the fund, potentially creating a partial or total loss for the fund.
- **Counterparty risk / money market & deposit:** A failure of a deposit institution or an issuer of a money market instrument could create losses.
- **Credit risk:** A decline in the financial health of an issuer could cause the value of its bonds to fall or become worthless.
- **Currency risk:** The fund can be exposed to different currencies. Changes in foreign exchange rates could create losses.
- **Derivatives risk:** A derivative may not perform as expected, and may create losses greater than the cost of the derivative.
- **Emerging markets & frontier risk:** Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty and operational risk.
- **Equity risk:** Equity prices fluctuate daily, based on many factors including general, economic, industry or company news.
- **Event risk:** The fund will take significant positions on companies involved in mergers, acquisitions, reorganizations and other corporate events, which may not turn out as expected and thus may cause significant losses.
- **High yield bond risk:** High yield bonds (normally lower rated or unrated) generally carry greater market, credit and liquidity risk.
- **Interest rate risk:** A rise in interest rates generally causes bond prices to fall.
- **Leverage risk:** The fund uses derivatives for leverage, which makes it more sensitive to certain market or interest rate movements and may cause above-average volatility and risk of loss.
- **Liquidity risk:** In difficult market conditions, the fund may not be able to sell a security for full value or at all. This could affect performance and could cause the fund to defer or suspend redemptions of its shares.
- **Operational risk:** Failures at service providers could lead to disruptions of fund operations or losses.
- **Short selling risk:** The fund may take positions that seek to profit if the price of a security falls. A large rise in the price of the security may cause large losses.
- **Capital risk / distribution policy:** the expenses of this share class are paid out of capital rather than out of investment income. Capital growth will be reduced and in periods of low growth capital erosion may occur.

Fund Manager Comment

The fund declined in February, driven by losses in the specialty pharma portfolio and Government Sponsored Enterprises (GSEs) in what was a very volatile month for equities.

Allergan fell 14% over the month after Mylan and Revance announced they are pursuing a biosimilar for Botox, one of Allergan's key products. However the current roadmap for a biosimilar Botox is unclear (likely 4-5 years out) and there are already multiple lower-priced alternatives on the market which have had limited impact on Allergan's market share in Botox. On the positive side, in February Allergan announced encouraging phase 3 data for its oral CGRP in acute migraine, an important milestone for a drug we believe has significant potential.

Shire saw further volatility in February, down 7%, as the market remains concerned about Roche's new haemophilia drug Hemlibra's potential impact on Shire's haemophilia franchise. We believe that the market is pricing in a worst case scenario with which we disagree. In February, Shire announced the acceptance of its Biologics License Application and priority review for Lanadelumab, a drug for prevention of HAE (hereditary angioedema) attacks. An August Food and Drug Administration date on Lanadelumab should provide investors with a positive catalyst as the drug has potential to be a blockbuster.

The GSEs, Fannie Mae and Freddie Mac, also declined after the US Supreme Court rejected appeals by investors to revive core parts of lawsuits filed against the government over the disputed net-worth-sweep, sending the preferred shares down 12%. Paulson's view is that the net worth sweep will not likely change until there is a broader plan in place to recapitalize the entities. Since the election, Treasury Secretary Steven Mnuchin has made numerous public statements saying that he wants to address the GSE issue in ways that provide taxpayer protection and mortgage market liquidity. We believe there is considerable upside to our holdings despite potential volatility, and a high probability of a favourable resolution this year.

The announced deals portfolio performed well in February. We weight the portfolio to deals we believe could receive competing or topping bids, a practice which benefited us when Sky received an all cash offer from Comcast on February 27th, valuing the company at £12.50 per share, a 16% premium to 21st Century Fox's cash offer. As of March 6th, Sky is trading at £13.32, higher than the Comcast offer price, indicating that the market expects a competitive bidding situation between Comcast and Fox/Disney. Other recent positive developments include Sky winning the Premier League rights through 2022 under a new deal to pay £1.2bn per annum, a 16% cost reduction per game versus the current agreement, and completing a deal to show Netflix content through its distribution channels. In addition to the good news related to Sky, NXPI Semiconductors received a bumped offer from Qualcomm, increasing the consideration from \$110 per share to \$127.50, even higher than our anticipated outside target of \$125. We expect the deal to close by the end of March.

The fund's overall adjusted net exposure increased from 40% to 48%. Long exposure to announced deals increased from 18% to 35% and event/merger arbitrage net exposure increased from 40% to 47%. The top 10 positions on the long side represent 66% of the portfolio, in-line with historic levels.

Portfolio Structure

These figures are on a delta-adjusted basis.

Cash adjustment is to account for the cash portion of deals (sourced directly from Paulson & Co.).

Source: Schroders

Exposure Analysis (%)	
Gross Equities Long	111.6
Gross Equities Short	-34.5
Fund Gross Exposure	146.0
Fund Net Exposure	77.1
Fund Gross Exposure (delta-adjusted)	146.0
Fund Net Exposure (delta-adjusted)	77.1
Cash Adjustment	29.6
Fund Net Exposure (delta & cash adjusted)	47.5

Number of Positions	
Long	28
Short	5

Strategy Exposure			
	Long	Short	Net
Announced Deals	35.1	-4.7	30.4
Offers	0.0	0.0	0.0
Event / Merger Arbitrage	76.5	-29.8	46.7
Market Hedges	0.0	0.0	0.0

Holdings Analysis

Stock names have been suppressed. Investments in single sector market index instruments will be classified in the relevant sector, where relevant.

Source: Schroders

Top 10 Long Holdings

Sector	Country	% NAV
1. Health Care	United States	9.5
2. Health Care	United States	9.5
3. Consumer Discretionary	United States	9.3
4. Health Care	United States	8.5
5. Consumer Discretionary	United Kingdom	5.7
6. Telecommunication services	United States	4.9
7. Information Technology	United States	4.8
8. Industrials	United States	4.8
9. Information Technology	Netherlands	4.6
10. Telecommunication services	Brazil	4.6

Top 10 Short Holdings

Sector	Country	% NAV
1. Market Index	United States	-14.1
2. Health Care	United States	-12.1
3. Information Technology	China	-3.6
4. Telecommunication services	United States	-3.3
5. Industrials	United States	-1.4

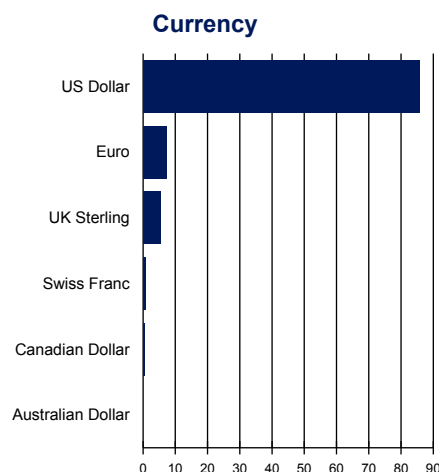
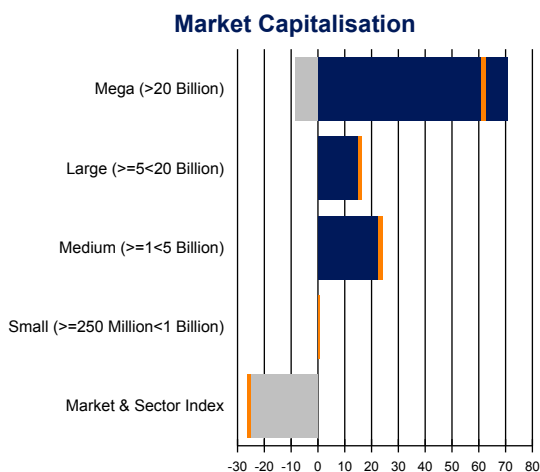
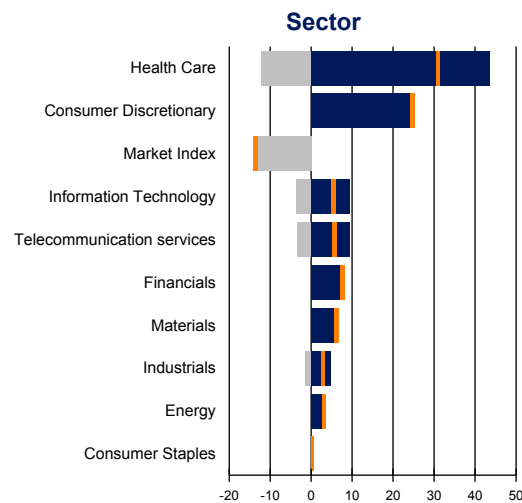
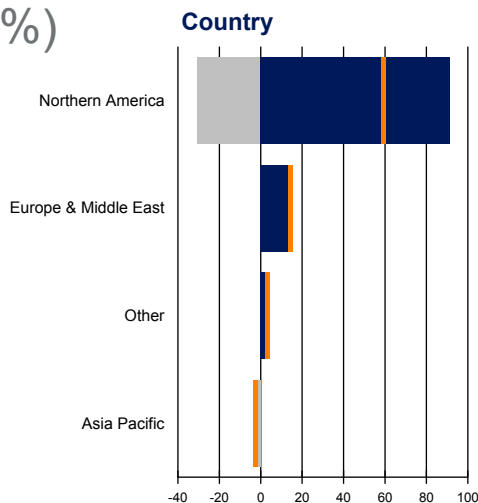
Asset Allocation (%)

■ Long
■ Short
| Net position

Country/Sector/Market Capitalisation: Analysis based on market exposure as a percentage of Total Fund Size excluding currency forward contracts.

Currency: Analysis based on market exposure as a percentage of Total Fund Size including currency forward contracts.

Source: Schroders



Performance Contribution

Analysis expressed is month to date contribution on a gross of fees basis using a total return methodology. The impact of any currency movement at a position level is reflected within each position's return. Stock names have been suppressed.

Source: Schroders

Summary	(%)
Long Equity	-5.5
Short Equity	1.7
Corporate Bonds	0.0
Index Options	0.0
Currency	-0.0
Other	0.0

Top 5

Contributors	Sector	(%)
1. Undisclosed	Consumer Discretionary	1.0
2. Undisclosed	Other	0.9
3. Undisclosed	Healthcare	0.5
4. Undisclosed	Information Technology	0.3
5. Undisclosed	Information Technology	0.2

Bottom 5

Contributors	Sector	(%)
1. Undisclosed	Healthcare	-1.3
2. Undisclosed	Healthcare	-0.7
3. Undisclosed	Financials	-0.6
4. Undisclosed	Healthcare	-0.6
5. Undisclosed	Financials	-0.5

ASC 820 (FAS 157)

Source: Schroders

Summary	% NAV
Level 1	0.0
Level 2	10.3
Level 3	0.0
Non-Trading Balance/Cash	89.7

Liquidity Breakdown

Historic data based on 20% participation rate in average traded volumes over last 20 days assuming 100% redemption. This data is a representation only and should not be viewed as an indication of ongoing/future liquidity. Percentages for liquidity assessment are subject to change.
Source: Schroders

Summary

		% NAV
1.	1 to 3 days	100.0
2.	4 to 5 days	0.0
3.	6 to 10 days	0.0
4.	>10 days	0.0

Information

Schroder Investment Management (Luxembourg) S.A.
5, rue Höhenhof
1736 Senningerberg
Luxembourg

Tel.: (352) 341 342 212
Fax: (352) 341 342 342

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	Accumulation
SEDOL	BLY1R93
Bloomberg	SGPAUSD:LX
Reuters	LU1062022659.LUF
ISIN	LU1062022659
CEDEL	106202265
Fund Domicile	Luxembourg
Fund Base Currency	USD
Dealing Frequency	Weekly on Wednesdays and Month End (3 days notice)
Entry Charge	3.00 % of gross investment amount
Ongoing Charges (latest available)	2.43 %
Performance Fee	20% of the outperformance over BBA Libor 3 Month subject to a High Water Mark
Distribution Fee	0.00 %
Settlement Timing	T+3 days

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