

Manager profile

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Company overview

Schroders Investment Management Australia Limited (Schroders) is a wholly owned subsidiary of Schroders PLC, a publicly listed UK company descending from a group that can trace its origins in banking and finance back almost 200 years. It was established in 1961 and is based in Sydney, which is home to the domestic research and investment teams and forms an integral part of Schroders' global network. As at 31 December 2009, Schroders in Australia had funds under management of \$14.5bn.

Investment philosophy and style – Australian equities

Schroders is a bottom-up, fundamental, active manager, which places emphasis on stocks it thinks have the potential to grow shareholder value in the long term. Schroders describes its style as quality growth. It defines this growth as focusing on a business' long-term quality and normalised earnings through a full business cycle, not near-term earnings momentum. Its long-term focus normally results in a relatively low momentum bias in either direction, as the process is largely ambivalent to short-term earnings direction.

Schroders has a long-term investment focus, which avoids poor quality and speculative stocks. It believes investors tend to be influenced by a fund's recent earnings and can mistake these earnings as sustainable in the long term. Schroders sees this as a key inefficiency to be exploited. By focusing on companies with sustainable earnings above its weighted average cost of capital (WACC) Schroders believes it can build a portfolio of companies most likely to sustain above market rates of share price appreciation.

Investment process – Australian equities

Schroders maintains direct coverage of all stocks within the S&P/ASX 300 Index, as well as a significant number of eligible stocks not included in this index. Its stock coverage is allocated to each analyst on a sector basis and extends down the market cap spectrum to include both large and small cap stocks.

Each company Schroders considers investing in is subject to detailed financial modelling. This modelling consists of a detailed profit and loss statement, cash flow statement, balance sheet and forecast assumptions.

Companies are then subjected to industry and business quality assessments to determine current and future key industry drivers, level of industry returns and identify company specific reasons for relative success within an industry. The quality of the company operations, competitive advantage relative to asset quality, cost positioning, product or service quality and/or differentiation, proprietary methods, technologies, company strategic direction and management's overall capability, are also assessed at this stage.

Schroders analyses all companies through a valuation process which focuses on sustainable rather than current margin levels and returns to convert detailed fundamental analysis into robust equity valuation. It then assesses the potential earnings, cash flow and valuation volatility of the company. Schroders believes that diversification should seek to minimise both absolute volatility and the susceptibility of the portfolio to external risk factors, not merely divergence from index.

Reason Advance selected Schroders

We're impressed by Schroders' active bottom-up approach and the emphasis it places on stocks which it thinks have the potential to grow shareholder value in the long term. Schroders' quality conservative growth style focuses on businesses' long-term quality and normalised earnings through a full business cycle, not the near-term earnings momentum. We also like Schroders' incorporation of macro-economic information in its portfolio positioning and its absolute risk approach.

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