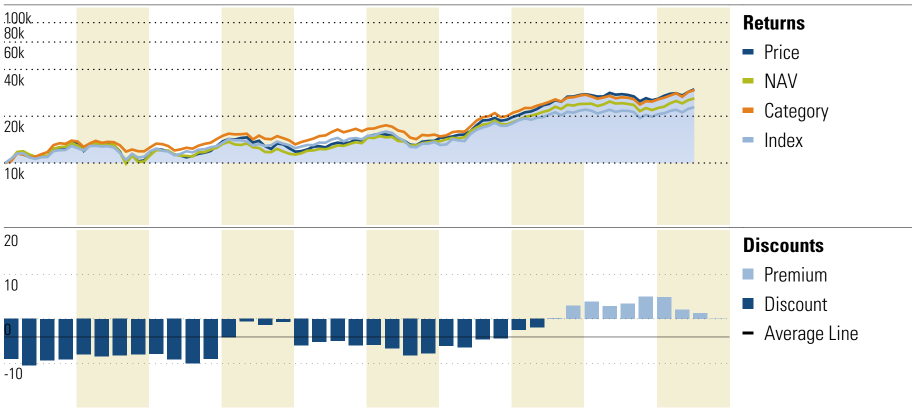
Schroder Asian Total Return Inv. Company ATR

Morningstar Rating™
★★★★★

Morningstar Analyst Rating
Gold 2/01/19 11:43 UTC-0600

Morningstar Benchmark	MSCI AC Asia Pac Ex JPN NR US
Morningstar Category™	Asia-Pacific ex-Japan Equity

Last Closing Price GBP	3.56
Last Closing NAV GBP	3.58
Discount/Premium %	-0.59
Latest Published NAV	—
Latest Published NAV Date	—
Traded Currency	GBP
Yield	1.74
Dividend Frequency	—
Total Assets £ Mil	356.2
Net Assets £ Mil	339.3
Market Cap £ Mil	337.3
Net Gearing %	0
Avg Daily Shares Traded Mil (3 month)	0.13
Inception Date	26/11/1987



	2010	2011	2012	2013	2014	2015	2016	2017	2018	YTD	**Performance %**
	22.94	-23.10	23.71	-3.38	12.34	-0.60	37.00	43.94	-7.31	17.53	Fund Price
	24.27	-23.76	22.50	-8.44	16.79	2.71	28.68	35.32	-8.65	18.96	Fund NAV
	2.55	-7.47	5.92	-9.94	8.16	6.30	2.48	12.97	-0.05	3.24	+/- Category
	2.42	-8.79	5.56	-9.92	7.58	6.83	1.35	10.20	-0.08	3.74	+/- Benchmark

Morningstar Analyst: Andrew Daniels, Senior Analyst
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Executive Summary

People: Comanagers Robin Parbrook and King Fuei Lee make a formidable duo.

Parent: Family-backed ownership with particular strength in equities.

Board: The board of four has a good mix of skills and backgrounds. It has been subject to refreshment over recent years.

Process: A rigourous, quality-focused investment approach with a hedging overlay.

Performance: Long-term results have been stellar.

Fees: The base management fee is competitive. The performance fee erodes this cost advantage. It is structured over only 12 months and not referenced to any index. The presence of a high-water mark, cap, and hurdle serve to assuage these concerns somewhat.

Role in Portfolio

This fund is a supporting player for investors wishing to construct a globally diversified portfolio, but it could also serve as a core equity holding for Asia-based investors.

Morningstar Opinion

01 Feb 2019 | Schroder Asian Total Return Investment Company's many strengths make it a terrific option for Asia Pacific ex Japan exposure. It continues to merit a Morningstar Analyst Rating of Gold.

This fund has been managed by Robin Parbrook and King Fuei Lee since March 2013. Both are topnotch managers who have dedicated their entire investment careers to Schroders. Not only have they consistently impressed us with their clear passion for investing and in-depth knowledge of the portfolio, but they also have great synergy with complementary skill-sets. While Parbrook moved to London from Hong Kong at the end of 2017, he's run the strategy from the U.K. previously and will continue to spend several months in Asia going forward, mitigating potential concerns about his relocation. The comanagers are supported by 41 analysts with 15 years of investment experience and seven years of experience on average. That being said, we're keeping an eye on analyst turnover following the departures of 10 analysts since the beginning of 2017. While these departures have been promptly replaced, it will take time for the new joiners to integrate into the team's philosophy.

This is an absolute return strategy that is benchmark-agnostic. The managers favour stocks that are able to generate higher returns on investment capital than their weighted average cost of capital, or those with ROIC currently below WACC but trending towards a positive spread. To mitigate market risks, they utilise both strategic and tactical hedging tactics via derivatives, which have been additive to returns over the years.

The managers have delivered during their tenure. Indeed, since April 2013 through December 2018, the fund's 9.2% annualised gain beat the MSCI AC Asia Pacific ex Japan Index's 6.3% return. These returns have been achieved with markedly lower volatility, so risk-adjusted results are superb.

While the strategy possesses a number of positive attributes, it is a relatively expensive offering--considering the performance fee in place--and Schroders can surely do better for investors in this area, especially given this strategy's sizable asset base of USD 4.7 billion as of September 2018.

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People

Manager	King Fuei Lee
Manager Start	15/03/2013
Manager	Robin Parbrook
Manager Start	15/03/2013
Avg. Manager Tenure	6.4 Years

Other Funds Managed

Schroder ISF Asian Ttl Ret C Acc USD

London-based Robin Parbrook and Singapore-based King Fuei Lee have comanaged this strategy's open-end vehicle, Schroder ISF Asian Total Return, since its November 2007 inception. Both are topnotch managers who have dedicated their entire investment careers to Schroders. Not only have they consistently impressed us with their clear passion for investing and in-depth knowledge of the portfolio, but they also have great synergy with complementary skill-sets. Parbrook brings expert stock-selection skills in the Asian countries, while Lee focuses on the quantitative models that form the basis for the country allocations and hedging positions in the portfolio. While Parbrook moved to London from Hong Kong at the end of 2017, he's run the fund from the U.K. previously and has built great rapport with the Asia team over the years, mitigating potential concerns about his relocation. Moreover, he has committed to spending several months in Asia each year going forward.

The historically stable Asia-Pacific ex-Japan equity research team has seen more turnover than we'd like, with 10 departures since 2017. While the team, which included 41 analysts in seven offices as of September 2018, has promptly replaced most departures--and nobody has left since May 2018--it remains to be seen whether these analysts are a good cultural fit and can adopt the team's investment philosophy. While this development bears watching, the fund's excellent management duo merits a Positive People rating.

Parent

Fund Advisor	Schroder Investment Management Ltd
Domicile	GBR

Founded over 200 years ago, Schroders has benefited from stable ownership, with the Schroder family still holding nearly half of its listed shares, providing a steady platform that allows for long-term strategic planning for growth. Schroders' standout expertise is in equities, the fund manager lineup is generally of a high calibre, boasts longevity at the firm, and is backed by sensible succession planning. This is particularly the case in Asian, European, U.S. small-cap, Japanese, and Australian equities, along with the value franchise. But the U.K. equity desk has seen fund manager turnover. Fund launches are selective, and pockets of fixed income earn positive Morningstar Analyst Ratings. There generally has been more stability in equities, however, where remuneration for fund managers is related to outperformance over three- and five-year periods (with a greater weight placed on the former). In fixed income and multi-asset, a one- and three-year split is in place, a reflection of what the group sees as investor expectations in these spaces. The firm has been acquisitive in specialist areas (private equity, insurance-linked securities, and securitised credit) as part of widening its footprint across asset classes. Wealth management has been on the agenda with the purchase of Cazenove in 2013, which included its asset-management business and, more recently C. Hoare in 2017.

Board of Directors

Discount Target	5%
Tender Offer	No
Buyback Authorization	Yes

The board comprises four members with an average tenure of five years. The board has seen considerable changes in recent years, with the retirement of the former chairman and senior directors. Chairman David Brief was appointed in April 2015, although his involvement with the company dates back to November 2007. Brief's investment management career began in 1979, and he has held CIO positions at a variety of large corporate pension schemes. Mike Holt joined in July 2014 and is a chartered accountant, having previously been group finance director of Vp plc, before which he held a number of senior financial positions with Rolls-Royce Group plc in the U.K., the U.S., and Hong Kong. Caroline Hitch joined in February 2015 and brings significant investment experience through her role as head of wealth portfolio management at HSBC Global Asset Management. The most recent appointment was Sarah MacAulay, in March 2018. She was previously a director for Barings in Asia and head of Asian equities at Kleinwort Benson. The board has a good level of investment experience, with regional specialisation. Three of the directors serve on the boards of other investment companies, and all but the most recent appointment are shareholders in this fund, which we like to see, as we believe it helps to align their interests with those of their shareholders. The board meets every two months and also holds a strategy day each year.

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Process: Investment Approach

Investment Objective: To provide a high rate of total return primarily through investment in equity and equity related securities in Asia Pacific Companies (excluding Japan). The Company seek to offer a degree of capital preservation through tactical use of derivative instruments. It is intended that the Company will have a bias to investing in small and mid-cap companies.

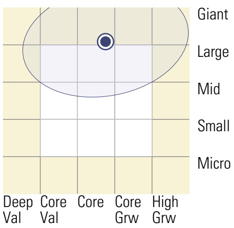
No Holdings Range	50-60
Max Position Size	10%
Min Position Size	0%
Expected Tracking Error	None
Expd Turnover	40-100%
Sector Constraints	None
Yield Requirement	None
Hedging Policy	SelectivelyHedged
Tactical Use of Cash	Yes

This is an absolute return strategy that is benchmark-agnostic, with stock positions sized according to the comanagers' conviction levels. To begin, the team applies a quantitative screen that focuses on characteristics displaying good downside resilience, such as dividend yield and cash flow yield. It then conducts in-depth company reviews, looking at factors such as competitive advantage and management's execution capabilities. It favours stocks that are able to generate higher returns on investment capital than their weighted average cost of capital, or those with ROIC currently below WACC but trending towards a positive spread. Taking valuations into consideration, stocks are graded from 1 to 4, with 1 representing a strong conviction that the stock will outperform.

The comanagers refer to a mean-reversion country model and a quantitative model to determine which countries are cheap or expensive on a 12-month strategic forecast basis. If they like a particular stock but believe its home country is expensive, they'll then hedge a portion of the country risk via index derivatives. They may tactically add more hedging if they see further short-term market risks. The resulting 50-60 stock portfolio is subject to 5% individual position caps, and portfolio turnover typically stays below 50%. Overall, the approach is rigourous, differentiated, and consistently applied, so it merits a Positive Process rating.

Process: Portfolio Positioning

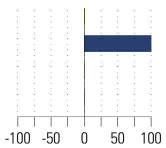
Morningstar Holdings Based Style Map



China has become one of the portfolio's largest allocations over the years, and the stake stood at 26% as of November 2018. The stake was primarily driven by communication services and consumer discretionary names, including Internet giants Tencent Holdings and Alibaba Group, as well as less widely held names like textile firm Shenzhou International Group and hotel chain operator Huazhu Group. While the managers are generally hesitant to hold state-owned enterprises, they recently purchased energy player CNOOC, noting that it has some of the best corporate governance practices among Asian energy firms. Meanwhile, the managers maintained several long-term positions in Hong Kong, including insurer AIA Group and power tool exporter Techtronic Industries. That being said, they recently purchased real estate firms Sun Hung Kai Properties and Swire Pacific for their compelling valuations given low vacancies, limited supply, and rising rents in the local office market.

World Regions	Assets %
Greater Europe	**2.05**
United Kingdom	1.26
Europe-Developed	0.79
Europe-Emerging	0.00
Africa/Middle East	0.00
Americas	**4.35**
North America	4.35
Latin America	0.00
Greater Asia	**93.61**
Japan	0.00
Australasia	14.60
Asia-Developed	48.62
Asia-Emerging	30.39
Not Classified	0.00

Asset Allocation



% Assets	Long	Short	Net
Cash	0.1	0.0	0.0
Equity	100.0	0.0	100.0
Bond	0.0	0.0	0.0
Other	0.0	0.0	0.0

Top 10 Holdings 31/03/2019	% Assets
HDFC Bank Ltd ADR	4.84
Samsung Electronics Co Ltd	4.81
Tencent Holdings Ltd	3.96
Taiwan Semiconductor Manufacturing	3.90
Swire Properties Ltd	3.54
Jardine Strategic Holdings Ltd	3.51
AIA Group Ltd	3.31
Alibaba Group Holding Ltd ADR	3.05
BHP Group Ltd	2.99
Techtronic Industries Co Ltd	2.80

Sector Weightings	% Equity
Cyclical	**53.9**
Basic Materials	4.5
Consumer Cyclical	17.3
Financial Services	21.1
Real Estate	11.0
Sensitive	**39.1**
Communication Services	0.0
Energy	3.2
Industrials	12.4
Technology	23.5
Defensive	**6.9**
Consumer Defensive	0.1
Healthcare	6.8
Utilities	0.0

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NAV Performance Analysis

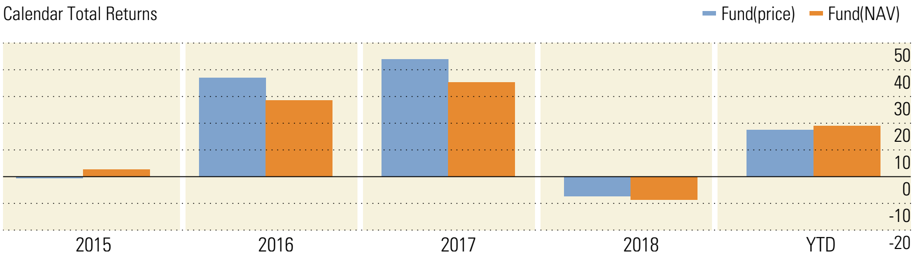
Data as of —

Trailing Returns Price	Total Rtn %	+/- Bmark
3 month	5.96	2.00
6 Month	15.10	4.18
1 Year	7.47	2.03
3 Year Ann.	19.38	7.54
5 Year Ann.	17.66	7.58

Trailing Returns NAV	Total Rtn %	+/- Bmark	+/- Cat	%Rnk In Cat
3 month	4.85	0.89	0.50	61
6 Month	14.32	3.40	2.58	13
1 Year	7.53	2.09	1.60	30
3 Year Ann.	15.47	3.63	4.43	3
5 Year Ann.	15.78	5.70	5.71	2

The fund has been managed by Robin Parbrook and King Fuei Lee since March 2013. Since then through December 2018, the fund's 9.2% annualised gain beat the MSCI AC Asia Pacific ex Japan Index's 6.3% return. A longer-term perspective of the strategy's effectiveness can be gauged by the performance of the Schroder ISF Asian Total Return SICAV vehicle, which the comanagers have led since its November 2007 inception. Since then through December 2018, the fund's 9.1% annualised gain trounced the index's 1.8% return. Overall, the strategy earns a Positive Performance rating. That being said, after a strong 2017, this fund lagged the index in 2018, albeit by just 26 basis points. Individual detractors included China-based Tencent Holdings, Taiwan-based Hon Hai Precision, and a short position on the Taiwan Stock Index.

Calendar Total Returns



Discount / Premium

Data as of 23-08-2019

Discount / Premium %	6 Mo	1Yr	3Yr
High	+6.61	+6.61	+6.90
Average	+2.39	-1.65	-0.03
Low	-0.86	-0.86	-7.30
Z-Statistic	-1.15	-1.65	-0.03

When Schroders was appointed in March 2013, around 50% of the issued share capital was bought back under a tender offer, and the board introduced a formal target to defend the discount at 9% in normal market conditions; this was revised to 5% soon after. In volatile periods, the board takes a pragmatic view to look through this short-term noise and view the trust's discount in the context of the wider peer group. The board has also introduced the opportunity to vote on the fund's continuation every three years, with the first such vote passed at the annual general meeting in April 2016. There are currently no shares in treasury, and the board has used the premium rating to regularly issue equity. Currently the trust is trading at a modest premium (January 2019).

Risk & Return

Data as of —

Morningstar Rating	Return	Risk	Rating
3 Year	*High*	*Avg*	★★★★★
5 Year	*High*	*Below Avg*	★★★★★
10 Year	*Above Avg*	*High*	★★★★
Overall	*High*	*Above Avg*	★★★★★

Returns have been strong under current management. Since Schroders took control in March 2013, through December 2018, the fund's 9.2% annualised gain beat the MSCI AC Asia Pacific ex Japan Index's 6.3% return. Those returns were achieved with markedly lower volatility--as measured by standard deviation--so risk-adjusted results remain impressive. Indeed, the fund's Sharpe ratio of 0.49 during the same period beats the index's 0.21. It has displayed quite solid downside resilience, capturing just 78% of the index's losses since March 2013. The five-year Morningstar Risk Rating is Low. The longer-term track record of the Schroder ISF Asian Total Return SICAV bears a very similar trend. Such a strong risk-adjusted return profile is thanks to the comanagers' focus on quality companies and the use of derivatives to hedge against market risks.

Volatility Ratios	3 Yr NAV	5 Yr NAV
Standard Deviation	12.12	12.12
Mean	1.26	1.28
Sharpe Ratio	0.80	0.62
Sortino Ratio	1.20	0.92

Risk vs Index	3 Year	5 Year
Alpha NAV	3.49	5.57
Beta NAV	0.97	0.74
R-Squared NAV	90.64	81.06
Treynor Ratio NAV	11.51	10.86

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Fees

Management Fee %	0.65
Ongoing Charge ex Perf Fee %	0.01

The base fee is 0.65% per year of gross assets less cash and cash equivalents. The management is also entitled to a performance fee, levied at 10% of the fund's excess total return above a 7% absolute hurdle rate (there is no reference benchmark). The performance fee is calculated on a 12-month basis and is subject to a high-water mark, and the aggregate of base and performance fees is capped at 1.5% of net assets. The base management fee is low compared with its category median, but the performance fee erodes this cost advantage. Further, we think it has some structural flaws: It is only calculated over a 12-month period, which is short in our view, and it is not referenced to a benchmark. However, it is good to see that the absolute cap has recently been lowered and that there is a high hurdle rate in place. For fiscal-year 2017, the ongoing charge was 1% (2016:1%), which increased to 2.68% once the performance fee was accounted for.

Gearing

Total Assets £ Mil	356.2
Net Assets £ Mil	339.3

As part of the investment objective, there is some focus on capital preservation, so the active use of gearing will likely be selective. Gearing is achieved in this fund through an overdraft rather than any structural debt, and its maximum level is capped at 30% of net asset value. Its use will depend on market valuations with the portfolio managers selectively using the facility to buy attractively valued stocks and selling futures to hedge out market risk. Under Schroders' tenure, the level of gearing has tended to be quite modest, varying between negative 5% and positive 13%. Net gearing was 8% as at January 2019.

Dividends

Dividend History	2016	2017	2018
Dividend	0.05	0.05	0.06
Special Dividend	0.00	0.00	0.00
Total	**0.05**	**0.05**	**0.06**

The fund's objective is to achieve a high rate of total return, so income is of significance, but its level can fluctuate. The board usually approves an annual dividend, typically composed of one payment. The board has also built the revenue reserves sufficient to cover the current annual dividend for over four years. Capital may not be used for income here. For fiscal-year 2017, dividends per share of 4.8p (2016: 4.5p) were declared on revenue per share of 5.48p (2016: 5.4p). The trust yields 1.45% (January 2019).

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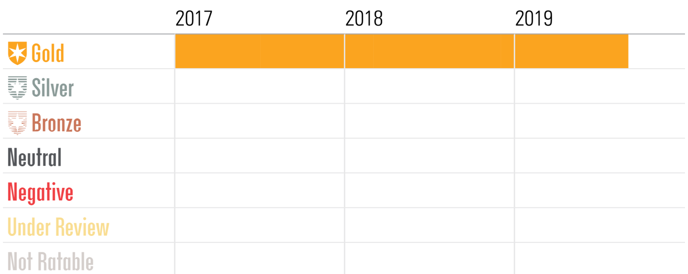

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Morningstar has identified five key areas that we believe are crucial to predicting the future success of funds: People, Parent, Process, Performance, and Price. Each pillar is evaluated when assessing a fund as well as the interaction between the pillars, which we believe is crucial to understanding a fund's overall merit.

People
The overall quality of a fund's investment team is a significant key to its ability to deliver superior performance relative to its benchmark and/or peers. Evaluating a fund's investment team requires that analysts assess several relevant items including how key decisions are made.

Parent
We believe the parent organization is of utmost importance in evaluating funds. The fund's management set the tone for key elements of our evaluation, including capacity management, risk management, recruitment and retention of talent, and incentive pay. Beyond these operational areas, we prefer firms that have a culture of stewardship and put investors first to those that are too heavily weighted to salesmanship.

Process
We look for funds with a performance objective and investment process (for both security selection and portfolio construction) that is sensible, clearly defined, and repeatable. In addition, the portfolio should be constructed in a manner that is consistent with the investment process and performance objective.

Performance
We do not believe past performance is necessarily predictive of future results, and this factor accordingly receives a relatively small weighting in our evaluation process. In particular, we strive not to anchor on short-term performance. However, we do believe that the evaluation of long-term return and risk patterns is vital to determining if a fund is delivering to our expectations.

Price
To reflect actual investor experience, price is evaluated within the context of the relevant market or cross-border region—for example, the United States, Australia, Canada, or Europe. In recognition of differences in scale and distribution costs in various markets, the level at which a fund is penalised for high fees or rewarded for low fees can vary with region. In Europe, for example, funds are penalised if they land in the most expensive quintile of their Morningstar category and are rewarded if they land in the cheapest quintile. The assessment is made using annual expense ratios, but in the case of funds with performance fees, expenses are evaluated excluding any performance fees and then the structure of the performance fee is evaluated separately.

Morningstar Analyst Ratings
Morningstar Analyst Ratings are assigned on a five-tier scale running from Gold to Negative. The top three ratings, Gold, Silver, and Bronze, all indicate that our analysts think highly of a fund; the difference between them corresponds to differences in the level of analyst conviction in a fund's ability to outperform its benchmark and peers through time, within the context of the level of risk taken.

Gold
Represents funds that our analyst has the highest-conviction in for that given investment mandate. By giving a fund a Gold rating, we are expressing an expectation that it will outperform its relevant performance benchmark and/or peer group within the context of the level of risk taken over the long term (defined as a full market cycle or at least five

years). To earn a Gold rating, a fund must distinguish itself across the five pillars that are the basis for our analysis.

Silver
Represents funds our analyst has high-conviction in, but not in all of the five pillars. With those fundamental strengths, we expect these funds will outperform their relevant performance benchmark and/or peer group within the context of the level of risk taken over the long term (defined as a full market cycle or at least five years).

Bronze
Represents funds that have advantages that clearly outweigh any disadvantages across the pillars, giving analyst the conviction to award them a positive rating. We expect these funds to beat their relevant performance benchmark and/or peer group within the context of the level of risk taken over a full market cycle (or at least five years).

Neutral
Represents funds in which our analysts don't have a strong positive or negative conviction. In our judgment, these funds are not likely to deliver standout returns, but they aren't likely to seriously underperform their relevant performance benchmark and/or peer group either.

Negative
Represents funds that possess at least one flaw that our analysts believe is likely to significantly hamper future performance, such as high fees or an unstable management team. Because of these faults, we believe these funds are inferior to most competitors and will likely underperform their relevant performance benchmark and/or peer group, within the context of the level of risk taken, over a full market cycle.

Morningstar may also use two other designations in place of a rating:

Under Review
This designation means that a change that occurred with the fund or at the fund company requires further review to determine the impact on the rating.

Not Ratable
This designation is used only where we are providing a report on a new strategy or on a strategy where there are no relevant comparators, but where investors require information as to suitability.

For more information about our Analyst Rating methodology please go to
http://corporate1.morningstar.com/ResearchLibrary/

Morningstar Star Rating
The Morningstar Star Rating is a proprietary data point that is quantitatively driven. Funds are rated from one to five stars based on how well the fund performed (after adjusting for risk and accounting for sales charges) in comparison to similar funds. Within each Morningstar Category, the top 10% of funds receive five-stars and the bottom 10% receives one-star. Funds are rated for up to three time periods –three-, five-, and ten-years– and these ratings are combined to produce an overall star rating, which is noted within the Report. Funds with less than three years of history are not rated. Morningstar Star Ratings are based entirely on a mathematical evaluation of past performance. Morningstar Star Ratings are in no way to be considered a buy or sell signal nor should be viewed as a statement of fact.

Equity-Related Data Points
The Report lists the fund's top ten holdings as of the dated noted. For each underlying holding, a series of data points is provided including, where applicable, that security's Economic Moat as of the date noted.

Economic Moat
The concept of an economic moat plays a vital role in our equity analyst's qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of its fair value estimate. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a *narrow moat* are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. *Wide-moat* companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, *no-moat* companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

For more information about methodology in analysing stocks, please go to
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The Research Analyst has not served as an officer, director or employee of the fund company within the last 12 months, nor has it or its associates engaged in market making activity for the fund company.

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