

Schroder GAIA

Paulson Merger Arbitrage



Asset class



Bonds



Equities



Alternatives ✓



Property

Fund manager



John Paulson
President of Paulson
& Co

John Paulson is President of Paulson & Co, specialising in mergers and acquisitions. Before setting up Paulson & Co, he was a general partner at Gruss Partners for four years, and before that Managing Director, Mergers and Acquisitions at Bear Stearns for four years. John holds an MBA from Harvard Business School and was made a Baker Scholar, Harvard's highest honour, in 1980. John also has a Bachelor of Science, summa cum laude, in Finance from New York University, where he was elected Valedictorian.

Source: Schroders, as at May 2014.

Schroder GAIA Paulson Merger Arbitrage aims to help investors generate above average returns with low volatility and limited market correlation. Managed by John Paulson, President of Paulson & Co, the fund targets an annualised return of 8-10% net of fees, with expected volatility of 6-8%.

Why invest?

- The fund takes advantage of the large (and growing) market opportunity for merger arbitrage deals, including diverse risk arbitrage, merger and event opportunities
- The team invests in complex merger related opportunities which offer higher potential alpha than 'plain vanilla spread' deals, typically used by other merger arbitrage managers
- In particular, the strategy focuses on high quality, larger spread deals, which gears the portfolio towards transactions with topping bid potential as well as focusing on unique deal structures
- The first Paulson merger fund was launched in 1994, and they now run just under USD8bn in the strategy. This has produced an annualised net return of over 12% since inception¹
- A very experienced team of 54 investment professionals.

Source: Schroders, as at 1 May 2014.

Source: ¹Paulson International Ltd. – May 1996 to 31 March 2014. Performance is calculated net of fees.

Key highlights

Diversified approach

Paulson's merger arbitrage approach goes above and beyond simply capturing merger arbitrage spreads, allowing the team to make money in many different market environments. While spreads remain tight in plain vanilla deals – typically used by other merger arbitrage managers – complex deal structures, competitive bids, and pre-announced deals used by the team offer scope to generate higher risk-adjusted returns.

Unconstrained flexibility

The fund manager has considerable flexibility over portfolio construction. The strategy is not constrained to using specific instruments or securities. The fund comprises of mainly equities, although all types of publicly traded securities can be used. Over the counter instruments, options, swaps – including credit default swaps – and other derivatives are also selectively used.

Specialist expertise provides a competitive advantage

Paulson's investment professionals provide a competitive advantage as each individual is a specialist, either in a particular sector or industry, or in specific functions such as merger law or bankruptcies. As event-driven opportunities do not recur often, they are difficult and expensive for most investors to research effectively. Paulson attempts to exploit this 'informational inefficiency' by using their specialist expertise to undertake detailed fundamental bottom-up analysis to develop a full understanding of the risks and rewards surrounding such events.

Who is Paulson & Co?

- Paulson & Co. is an SEC registered investment management company specialising in global merger and event arbitrage and credit strategies
- The firm was founded in 1994 by John Paulson and is headquartered in New York, with offices in London and Hong Kong. The firm's investment team is led by John Paulson, and is comprised of financial and legal experts in merger arbitrage, event arbitrage, structured credit and distressed investing
- Paulson employees' interests are directly aligned with investors as employee capital makes up 62% of the Firm's total AUM.

Source: Paulson & Co, as at 28 February 2014.



Schroders

Investment approach

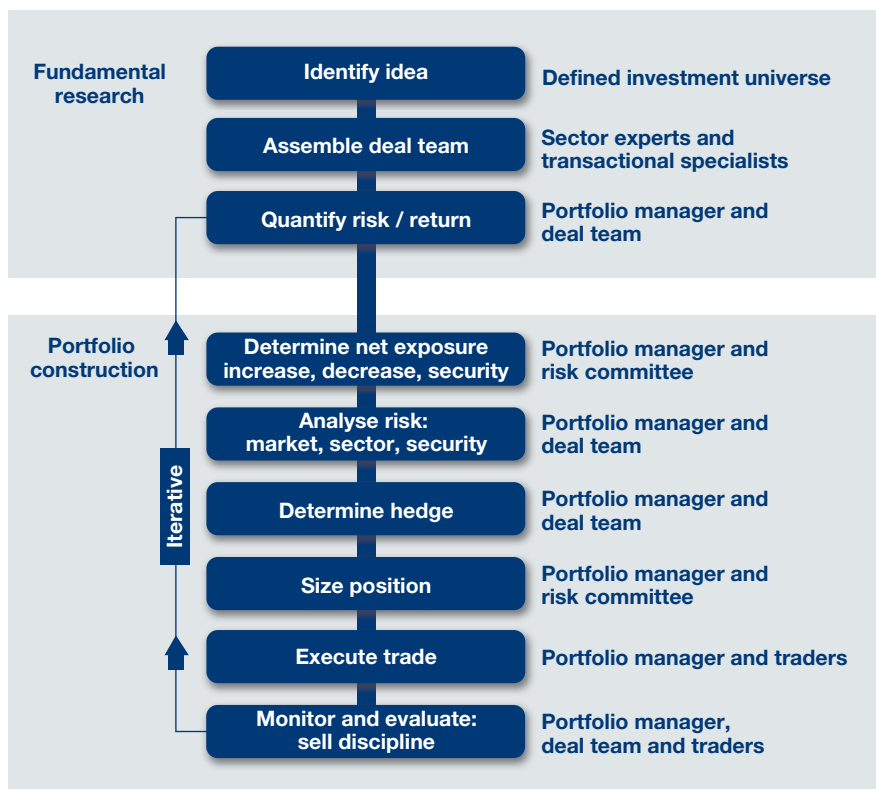
The team have a unique approach to generating alpha across the cycle. Recognising patterns and mitigating risk is a key factor to success.



Source: Paulson & Co, as at June 2014.

Investment process

The Investment process is driven by fundamental research.



Source: Paulson & Co, as at June 2014.

Fund facts

Launch date	25 June 2014
Capacity	\$1bn
Dealing frequency	Weekly (every Wednesday), and on the last business day of each month
Deal cut off	13.00 Luxembourg time three business days preceding a dealing day
Settlement	Three business days following a dealing day
NAV publication	Daily on t + 1
Base currency	USD
Available share classes	USD – C Acc, E Acc; EUR Hedged – C Acc & E Acc; GBP Hedged – C Acc, C Dis & E Dis; CHF Hedged – C Acc

Key information

Share classes	C	E
Minimum initial subscription/minimum holding	\$500,000	\$500,000
Initial charge	Up to 1%	Up to 1%
Investment management fee	1.25%	1.00%

Source: Schroders, as at June 2014. Initial charge: Percentages are stated with reference to the total subscription amount, which represents C and E shares 1.01% of the Net Asset Value per Share. Investment Management Fee: Percentages are stated with reference to the Net Asset Value of the Fund or the Net Asset Value per Share, as may be appropriate.

Risk considerations

The capital is not guaranteed. The fund is suitable for investors with a longer term investment horizon and who are more concerned with long term returns than short-term losses. The investor has a risk tolerance high enough to absorb potential losses associated with the uncertain outcome of merger and acquisition transactions and corporate events. The fund will take significant positions in companies involved in merger and acquisition transactions and other corporate events, the outcome of which are uncertain and may in certain instances adversely impact the performance of the fund. Investments in companies that are involved in mergers or other corporate events can be difficult to sell quickly, which may affect the value of the fund and, in extreme market conditions, its ability to meet redemption requests upon demand. Non-investment grade securities will generally pay higher yields than more highly rated securities but will be subject to greater market, credit and default risk. Investment in bonds and other debt instruments including related derivatives is subject to interest rate risk. A security issuer may not be able to meet its obligations to make timely payments of interest and principal. This will affect the credit rating of those securities. Investment in fixed income securities and other debt instruments including related derivatives is subject to interest rate risk. The value of the fund may go down if interest rate rise and vice versa. Investments in money market instruments and deposits with financial institutions may be subject to price fluctuation or default by the issuer. Some of the amounts deposited may not be returned to the fund. Investments denominated in a currency other than that of the share-class may not be hedged. The market movements between those currencies will impact the share-class. The fund may hold large positions in a particular investment and if market declines or the issuer defaults, then the fund will be adversely affected. The fund enters into financial derivative transactions. If the counterparty were to default, the unrealised profit on the transaction and the market exposure may be lost. The fund may be leveraged through the use of financial derivatives to achieve a risk target consistent with its risk profile. Long and short exposure gained through equity and bond total return swaps may increase the exposure to equity and credit related risks. The use of financial derivative instruments for investment purposes may increase the share price volatility, which may result in higher losses for the investor.

Schroders' awards



Source: Management Today, 'Britain's Most Admired Company', 2013/14; Morningstar 'Best Fund House Larger Equity' awarded to European and UK businesses, 2014.

To learn more about **Schroders Luxembourg domiciled funds**, please visit

www.schroders.lu

Why Schroders?

Trusted heritage Advanced thinking

Schroders is an independent, dedicated asset manager with a strong heritage and culture based on over 200 years' experience of investment markets. Listed in the UK, we benefit from a strong balance sheet and a stable ownership structure which allows us to focus entirely on delivering results for our clients.

With over €324.1 billion of assets under management and an international network spanning 37 offices in 27 countries, Schroders has the perspective and expertise to identify major investment potential wherever it is located.

Source: Schroders, as at 31 March 2014.



Source for rating: Fitch, 'Highest Standards' awarded to Schroders on 19 February 2014.