



*SCHRODERS CAPITAL*  
Private Asset Solutions



## AGENDA



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## *SCHRODERS CAPITAL OVERVIEW*

A business founded on performance, innovation and integrity

# Schroders capital

\$86bn

Assets under management

<b>Private Equity</b>	\$15.0bn
Small and mid-sized buyout in Europe and US as well as Growth investment in Asia and Global venture capital	
<b>Securitised Products<sup>1</sup></b>	\$17.6bn
Full spectrum of securitised assets and asset-related private debt in data-rich credit sectors across the US, Europe and APAC	
<b>Real Estate</b>	\$29.7bn
Operational excellence, hospitality and sustainability expertise driving performance across the value chain in Europe and Asia	
<b>Infrastructure/Renewables</b>	\$14.9bn
Essential infrastructure in Europe across the capital structure	
<b>Insurance-Linked Securities</b>	\$4.5bn
Uncorrelated long-term returns across life and non-life insurance risk globally	
<b>Impact</b>	\$4.2bn
A global impact investment capability dedicated to generating lasting positive changes and attractive returns	

30+

investment capabilities

270+

investment professionals

500+

employees

82%

of assets outperforming over 5 years

100%

ESG alignment

Past performance is not a guide to future performance.  
Source: Schroders Capital, 2022. AuM and performance as of Q1 2022 (includes dry powder).  
<sup>1</sup>And Asset Based Finance.



*AN INTRODUCTION TO PRIVATE  
MARKETS*

# What are private markets

## An explanation and categorisation of private markets

### Key points

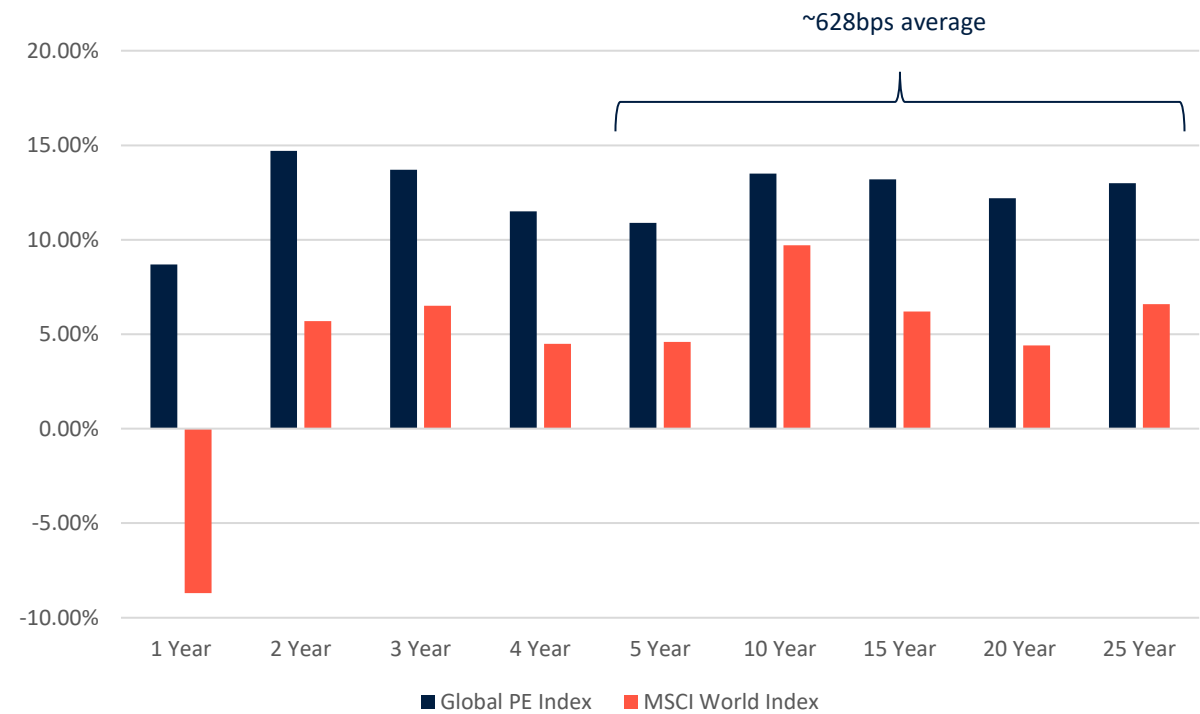
- Private asset investments, in simple terms, are opportunities that are unavailable through public
- Private asset classes offer the potential for a range of return profiles from attractive income, to capital growth and impact
- They enable investors to directly profit from long-term investment themes and can also provide access to specialist sectors or industries that are normally access restricted and capital intensive
- Private asset investments can be broadly categorised into two groups:
  - Private Debt: Providing private companies with financial capital through lending in return for contractual income
  - Private Equity: Taking a share or ownership in private companies (or companies that become private), with the aim of growth or income through dividends



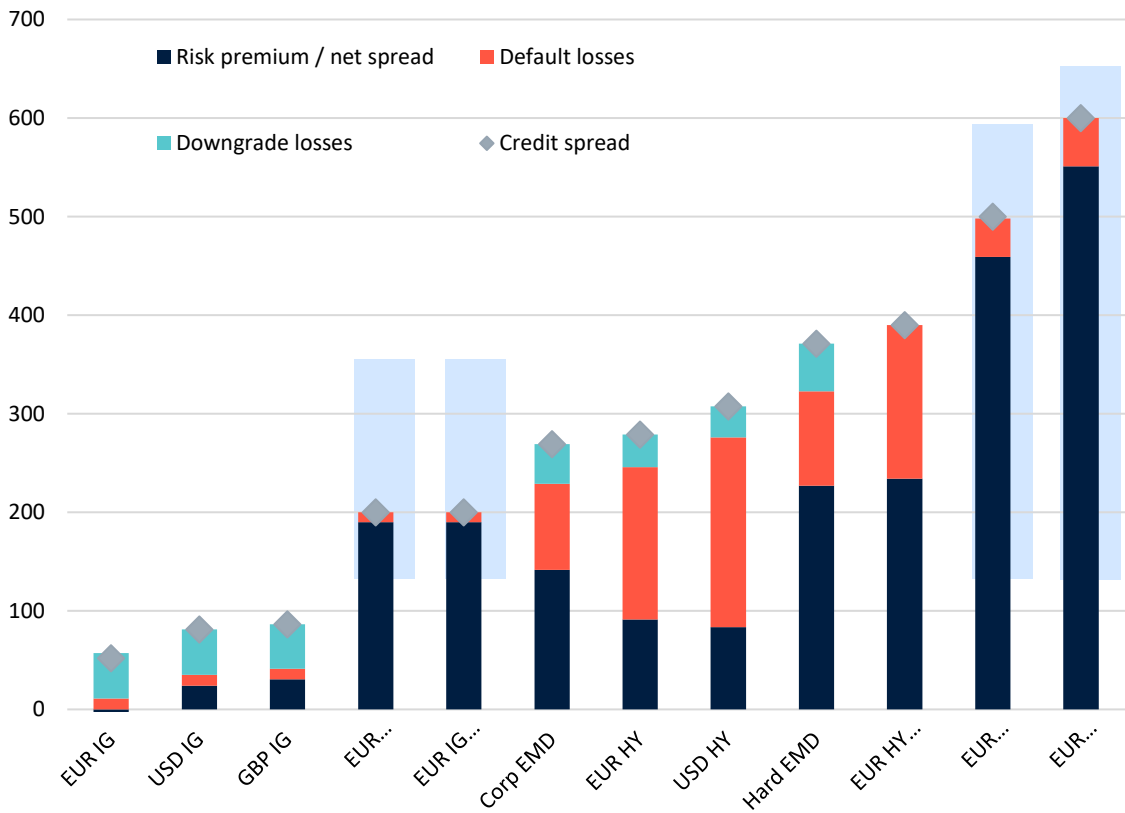
# The investment landscape

## Performance comparison of private vs public assets

### Private vs Public Equity



### Private vs Public Debt



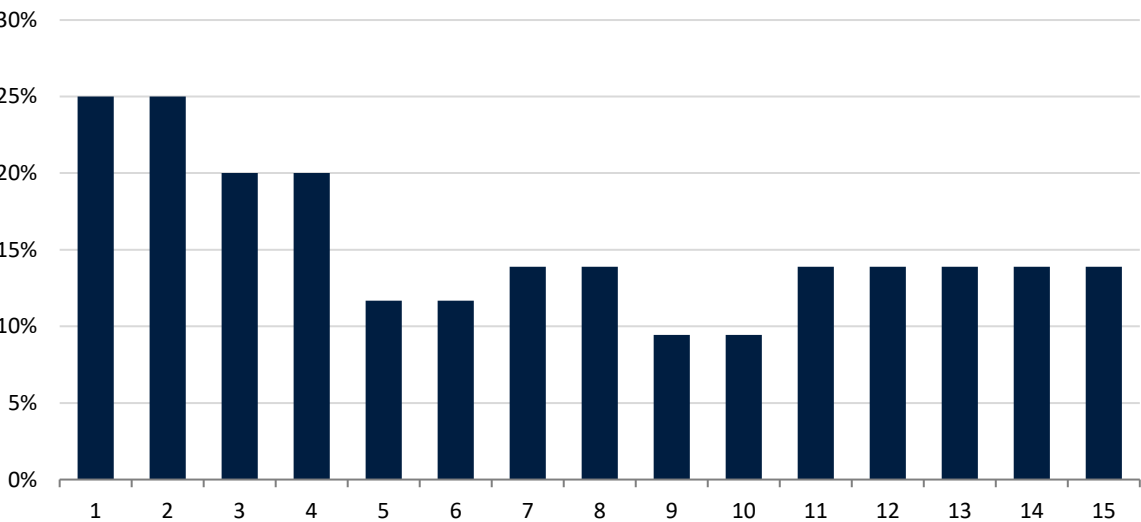
Source: Schroders Capital, 2021. There are no guarantees that the investment objective will be achieved.  
Source: Cambridge Associates LLC. Benchmark Statistics, MSCI. December 2019

# Long-term commitment planning in private assets

Reaching and maintaining target allocation and flattening the J-curve

## Illustrative commitment profile

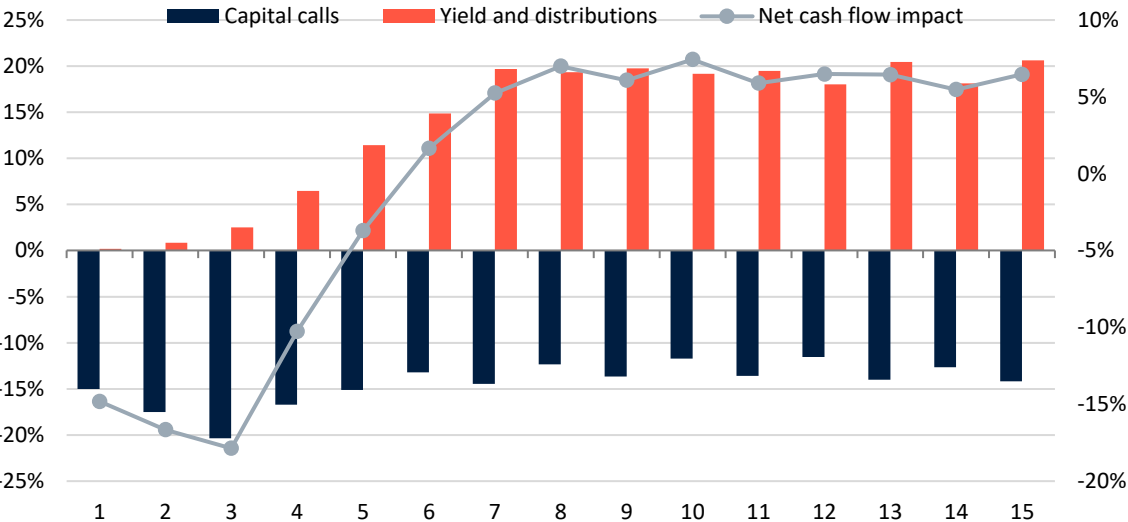
% of target allocation



Consistent deployment across cycle ensures vintage year diversification

## Illustrative cash flow profile

% of target allocation



Integrated portfolio management – cash flows needs and distributions, managed alongside overall portfolio

Continuous process requiring consistent market presence and portfolio feedback loop



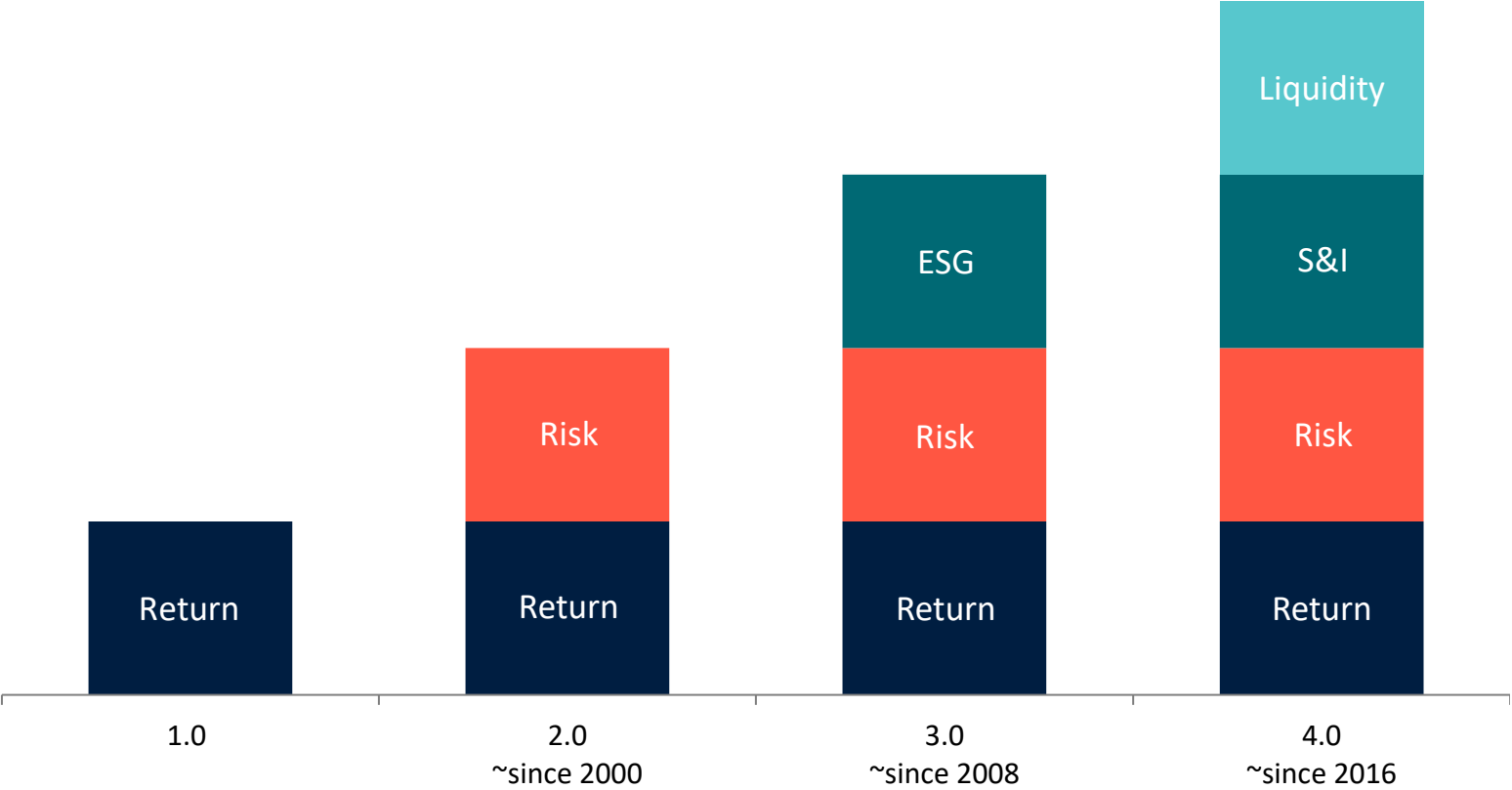


## *THE GROWTH OF PRIVATE MARKETS*

# Private markets overview

## The evolution and future of private assets

### Private Asset industry focus



### Recent/Emerging trends

- New liquidity options and democratisation
- From ESG integration to sustainability and impact
- Better diversification within private assets
- From illiquidity premium to complexity premium

Source: Schroders Capital, 2022.

# The demand for private assets

## The four core pillars driving the private asset market of tomorrow



### Returns

- Long term outperformance versus public market investments
- Illiquidity premium - excess returns that can be generated through a lack of liquidity
- Complexity premium – excess returns that can be generated through applying special skills to complex investment situations



### Diversification

- Ability to generate a diversified return profile and lower for investors, when compared to public market securities
- Real assets can provide an income less impacted by inflation and are typically less correlated to traditional public bonds and equities



### Sustainability & Impact

- Investment management can be more activist in privately held vs publicly held companies, and therefore exert greater influence over ESG factors
- The long-term benefits of building in ESG considerations go hand in hand with the long-term investment horizon



### Democratisation

- New liquidity options (including semi-liquid evergreen structures) drive a continued democratisation of private assets, beyond the institution-heavy client base of today
- Providing access to a range of clients who have previously based access complexities

# Focus on the complexity premium

The observed outperformance of private assets over comparable listed investments can be explained by these components:

1

An illiquidity premium – compensating investors for the inability to sell their investments

2

A complexity premium – or 'skill premium'

3

Different risk premia, like a size premium for smaller investments

We believe that the growth of private assets over the last decade has reduced the illiquidity premium. Fund raising is, as discussed, now significantly above its long term trend in some areas. However, while the illiquidity premium is under pressure, the complexity premium and other risk premia are intact.

The complexity premium can be captured in private assets when two factors meet. Firstly, when a situation arises that is particularly complex in terms of access, risks and opportunity. Secondly, when rare skills are deployed to source, select and negotiate, develop and exit the investment. The nature of the complexity premium differs depending on the type of asset but both of these things are needed to it to emerge.



# Correlation of private assets

It is important to understand the importance of diversification within private assets

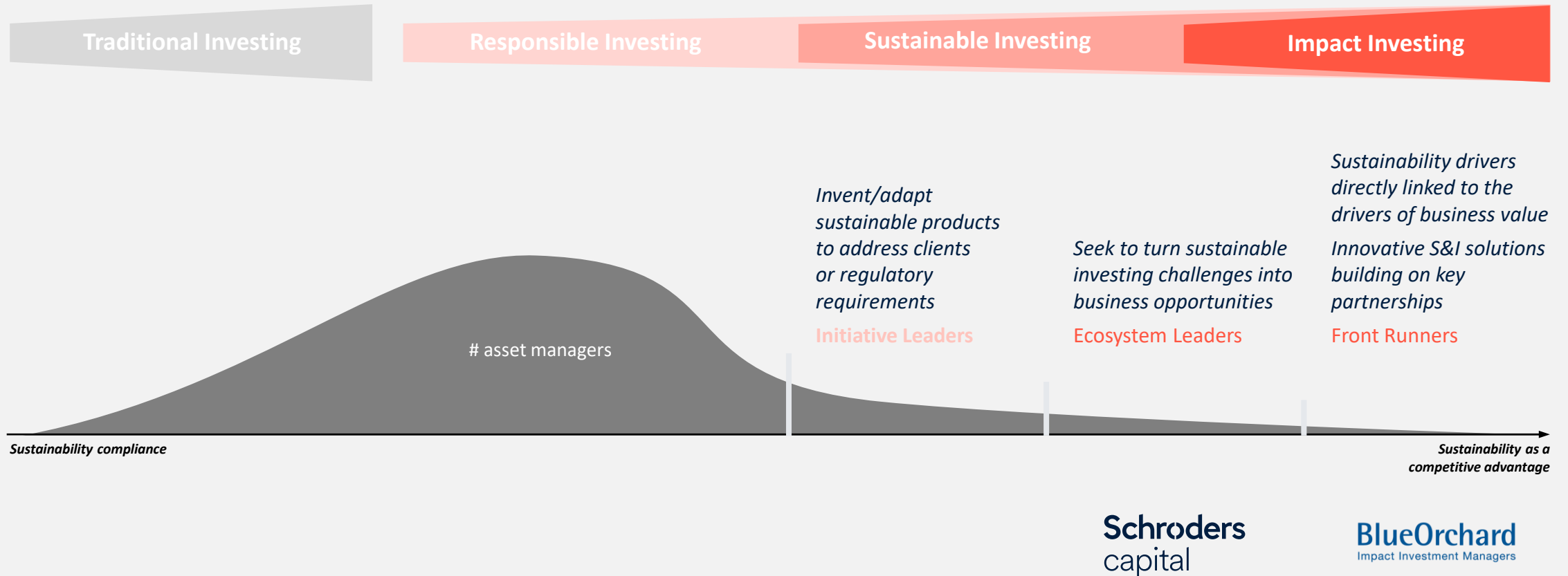
Estimated correlation vs. other comparable credit and equities, September 2008 to September 2020 (in £)

	Infrastructure debt	Private debt	Real Estate debt	High yield	Leveraged loans	Equities
Infrastructure debt	1.0000					
Private debt	0.3636	1.0000				
Real Estate debt	0.5960	0.7245	1.0000			
High yield	0.4428	0.4463	0.1535	1.0000		
Leveraged loans	0.2966	0.7665	0.5602	0.5117	1.0000	
Equities	0.2970	0.6404	0.2240	0.7718	0.5979	1.0000

Source: Schroders, 2022.

Indices used for correlation table are as follows: Infrastructure Debt – Investment Grade European Utilities Index. Real Estate Debt – US Commercial Mortgage Backed Securities. Private Debt – Burgiss Private Debt Database. High Yield – Global High Yield. Leveraged Loans – US Leveraged Loans Index. Equities – MSCI ACWI.

# Schroders Capital positioning in the S&I market



# Robust and systematic approach to building sustainable change



## Intent

Ensure that **sustainability and impact are represented** in the investment objectives and go beyond financial ESG risks

Promote **innovative investment solutions** and select like-minded partners



## Contribution

**Mid/long-term investment horizon**

**Proximity to the assets** and implementation of our principles across the entire value chain of intermediaries we work with

**Active ownership and engagement**



## Measurement

**Extensive range of sustainability and impact metrics** to measure the effectiveness of our investments in achieving the goals set

**Disclosure and transparency** in a unified investment framework and reporting system (e.g. Impact Principles for Art. 9)



*PRIVATE ASSETS FOR INSURERS*



# Key Considerations for investing in Private Assets for Insurers



## Risk based capital

Capital charge treatment under Solvency II is a key consideration when accessing private assets.

Matching and diversification implications



## Evolving regulation

Regulation can make certain features unattractive to insurers

Qualifying infrastructure investments

Treatment of long term equity (LTE)

UK Solvency II under review



## Illiquidity & return

Enhanced return potential at the cost of liquidity

Consider which asset classes best suit your objectives and constraints

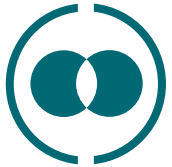
## Summary: Why private assets are well suited for insurers



Well suited for asset liability matching



Yield enhancing and inflation linked characteristics



Diversification benefits complements traditional investments



Increased focus on climate and ESG – significantly accessible through private assets

# Schroders Capital Private Asset Solutions

						
	Private Equity	Credit	Real Estate	Infrastructure	Insurance-linked	Impact
Strategy	Small/mid buyouts Venture Capital Growth Capital Turnaround	Securitized Credit Multi-Sector Securitized Tactical Private Credit Multi-Private Credit Australia Loans	Equity Core/Core + Equity Value Add / Opp. IG, Senior & Stretched Debt Mezzanine Debt	Equity Core/Core + Junior Debt Senior Debt Renewables	Non-life risks Life risks All-ILS (Life & non-life) Insurance-linked PE & PD	Micro & SME Credit Infra Debt Private Equity
Deal type	Primaries Secondaries Co-investment	Public & private markets Co-investment Indirect	Direct Indirect Solutions	Direct (Brownfield)	Bonds & bond-like assets Securitized insurance & reinsurance contracts Private Debt & Equity	Direct
Sector & Theme	Technology Healthcare Diversified	CRE loans CMBS & RMBS CLO ABS	Commercial Hotels Healthcare Residential Diversified Impact	Renewables, Energy, Power Digital Infrastructure Transportation Environment Social Diversified	Property catastrophe Excess mortality & VIF Lloyd's and Run-offs	Financial Inclusion Climate Action Sustainable Infrastructure Gender Empowerment COVID-19 MSME Support
Geography	Europe US Asia & QFLP	Global	Europe UK Asia	Europe	Global	EM & Frontier Markets UK
Vehicle	SMAs Commingled Funds Co-Investments	SMAs Funds	SMAs Funds Co-investments	SMAs Funds Co-investments	SMAs Funds	SMAs Funds

Source: Schroders Capital, 2022



*PRIVATE ASSET SOLUTIONS*

# Partnering with Schroders Capital

The three core pillars of our platform

## Investment Capabilities

Diverse and exclusive access to worldwide investments, delivering market leading performance



## Innovation & Solutions

Robust and innovative manager with a commitment to increase access and sustainability in private assets



## Partnership & Collaboration

Expertise and experience in working with clients to provide additional investment services

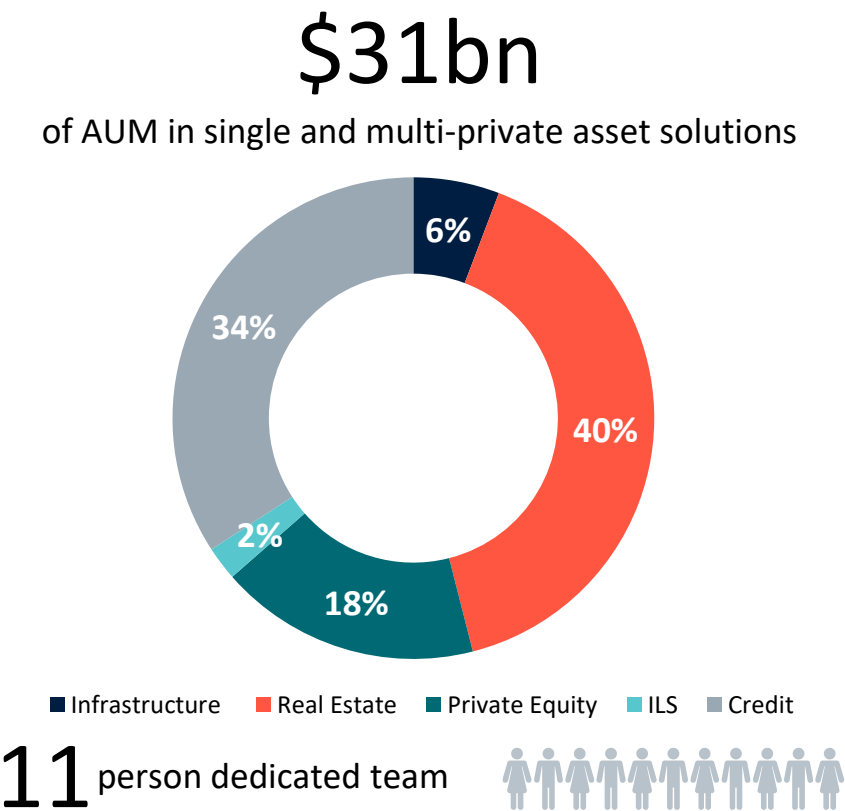


*Providing clients access to leading global private market opportunities within a collaborative partnership model*

# Schroders Private Asset Solutions

Collaborative and tailored private asset solutions for a diverse client base

## Deep expertise in mandate implementation



## Solutions focused around three core pillars of investment



Source: Schroders Capital, 2022

# Building PA solutions

Collaborative and tailored solutions for each individual clients and group



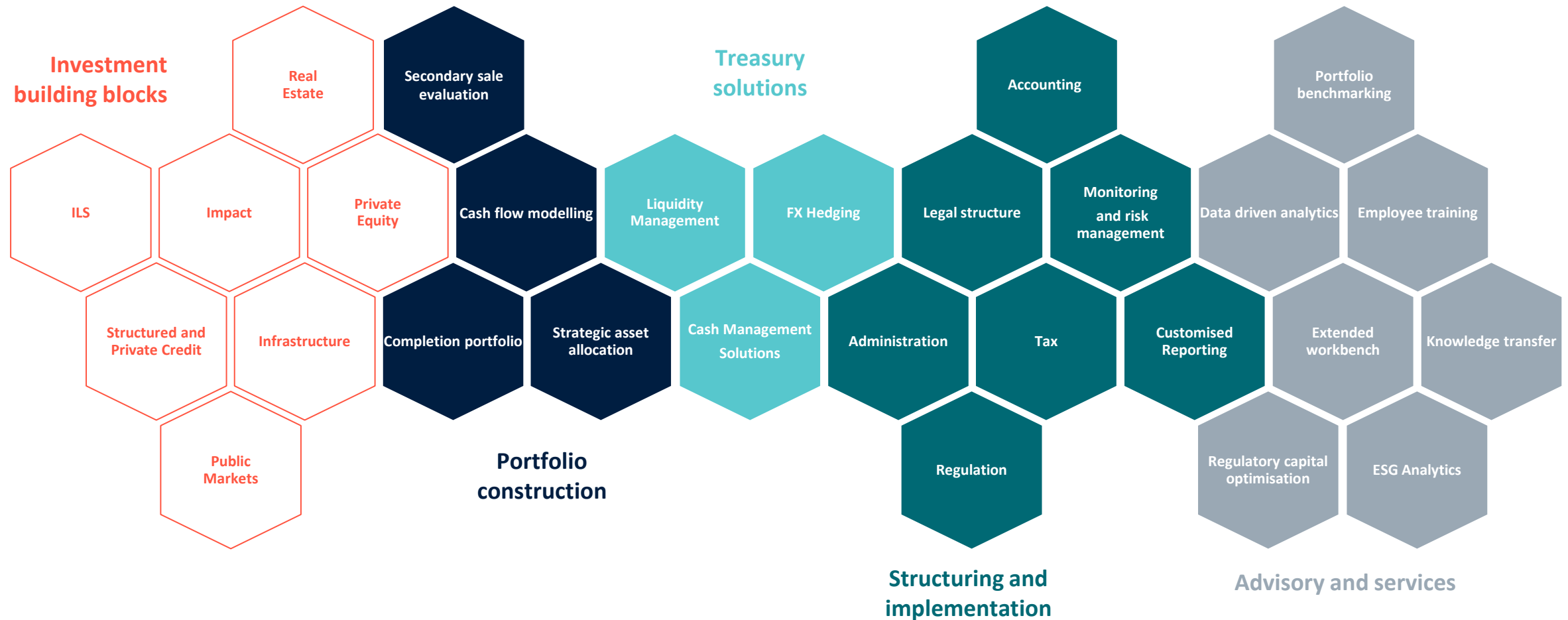
## Our approach:

- Focus on outcomes not asset classes
- Broad investment perspective leveraging in-house investment teams income-oriented solutions,
- Depth of technical capabilities
- Strength in execution

## Our Focus:

- Multi-private asset portfolios
- income-oriented solutions,
- sustainability and impact solutions
- investors with complex operational and structuring challenges

# The private assets solutions toolkit





# How we design and implement bespoke solutions for our clients

## 1. Setting parameters based on client objectives:

- Target returns
- Risk budget
- Liquidity requirements
- Cash flows
- ESG objectives

## 2. Identify and assess investments compliant with objectives:

- Income-oriented assets
- Diversifying assets
- Return enhancement assets
- ESG

## 3. Design optimal target portfolio

- Robust modelling tools
- Iterative portfolio construction

## 4. Create relevant structure:

- Tax
- Regulatory and legal
- Administration and controls

## 5. Investment process

- DD and Investment Committee process
- Deployment/Commitment planning

## 6. Oversight and risk monitoring

- Reporting
- Ongoing monitoring
- ESG impact measurement

Solution design

Implementation and monitoring



*APPENDIX*

6

Dedicated Data Scientists  
embedded within Schroders  
Capital and supported by the  
Group data science team

100+

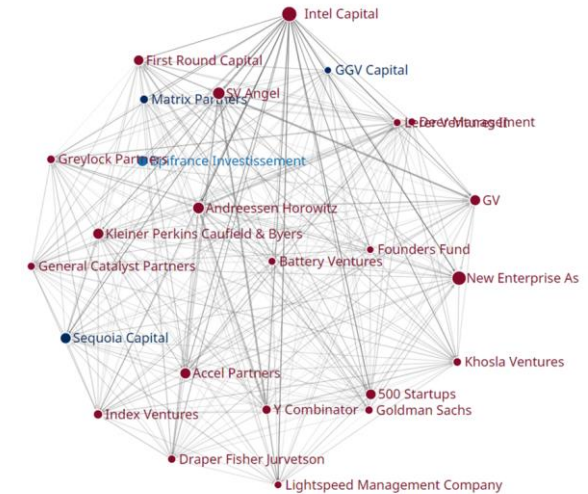
Data science insights completed  
in 2021 in collaboration with  
domain experts across the  
investment teams

## Developing proprietary tools to add rigour and efficiency to investment processes

**Going beyond what is currently available** by providing new information and supplementing existing data sources through use of modern AI and Machine Learning algorithms

**Advanced analytics**, researching new and innovative ways to support the investment process through building tools to help investors visualise data and make investment decisions

**Working in partnership with investment teams**, surfacing critical insights in a scalable way to help our investors act with more information and greater conviction

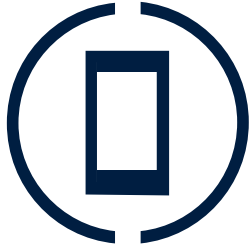


### Examples:

- Develop a visualisation tool (above) to easily identify Venture Capital firms with similar characteristics based on 100K+ investments and deal syndication patterns
- Combine human assessments and machine learning to automatically create intelligent long-shortlist of potential PE investments globally
- Geospatial mapping tools created for securitised credit platform to assess population density and migration to ensure we align capital with winning cities

# Technology is driving change

Technology is accelerating the growth and access of private assets to HNWI



## Crowd funding and investment platforms through new devices

- New technology making it easier to access private investments and opening up to new entrants
- Popularisation of Dragons Den and Shark Tank, plus similar entertainment. Raising interest in private company investing



## Automation of registration and subscription

- **KYC and AML** checks increasingly made easier using smart phones and video calls
- Private investors can open a new account in 5 minutes



## Digitalisation of information

- Information flow to investors increasingly digitalised
- Virtual datarooms for online due diligence

# We are bringing together extensive Sustainability and Impact (S&I) investing expertise

Extensive  
Group-level resources

20 years+  
of ESG integration

32  
dedicated ESG specialists

A+  
UN PRI annual assessment<sup>1</sup>

Schroders

In-house expertise across  
private asset classes

300+  
Asset class specific ESG metrics

10  
Dedicated private assets S&I  
specialists

Impact Principles  
A best-in-class sustainability and  
impact investment  
framework<sup>2</sup>

Schroders  
capital

Market leading Impact Investing  
know-how

20  
years pioneering impact investing

7  
Impact investment managers

90+  
countries invested in

 **BlueOrchard**  
Impact Investment Managers

(1) PRI, 2015, 2016, 2017, 2018, 2019 and 2020 Schroders Group Assessment Reports.

(2) Operating Principles for Impact Management see: [www.impactprinciples.org](http://www.impactprinciples.org)

# Fund structures

## Characteristics of available private asset structures

	Investment company	Mutual fund	Limited partnership
<b>Common Form (Jurisdiction)</b>	Investment trust (UK)	SICAV (Luxembourg)	SCS / SCSp (Luxembourg)  Limited partnership (UK / Channel Is. / Delaware / Cayman Is.)
<b>Liquidity</b>	Closed-end (no redemptions)  Liquidity via stock exchange listing	Open-ended; redemptions at intervals (typically no more frequently than monthly for funds investing in illiquid assets)	Generally closed-ended, although can also be open-ended  Self-liquidating fixed term structures
<b>Applicable Regulatory Regimes</b>	<i>Manager regulation</i> – AIFMD  <i>Product regulation</i> – none, except that as listed company subject to, e.g., Prospectus rules; Market Abuse Regulation	<i>Manager regulation</i> – AIFMD  <i>Product regulation</i> – Part II, RAIF, SIF (Luxembourg); NURS, LTAF, QIS (UK)	<i>Manager regulation</i> – AIFMD  <i>Product regulation</i> – generally unregulated but if established in Luxembourg may use RAIF or SIF regime
<b>Governance</b>	Independent board of directors  Will constitute an AIF and therefore requires authorised AIFM (unless below size threshold)	Managed by authorised management company	Responsibility for management sits with general partner (usually an SPV) who will appoint an authorised management company
<b>Subscription / Capital Calls</b>	New shares subscribed at IPO or follow-on offering; otherwise investors acquire shares in secondary market	Shares / units subscribed at NAV on regular dealing day	Investors commit during 12-24m subscription period; commitments are paid into the fund when required for underlying investments during 3-4y investment period
<b>Distributions</b>	Subject to normal rules on payment of dividends	May make regular distributions or retain cash for reinvestment	Typically cash received from underlying investments is paid out to investors
<b>Principal Benefits</b>	No requirement for manager to manage assets to satisfy investor liquidity	Regulated mutual funds can be more attractive for certain categories of investor	Typically tax transparent  Contractual structure facilitates flexibility around features such as capital calls, distributions, allocation of carried interest to managers
<b>Other Considerations</b>	Relatively high cost of establishment and onerous process for raising additional capital  Incremental costs of satisfying Listing Rule requirements Shares may trade at discount (or premium) to NAV of underlying assets	Depending on applicable regulatory regime, may be more or less restrictive investment or borrowing powers (eg NURS limits % of assets that may be illiquid)  Manager must operate fund in order to manage potential investor liquidity demands which may limit ability to invest in longer term more illiquid assets	Tax transparency can create issues for certain categories of investor which can be managed by feeder or parallel structures but all of which adds complexity

Source: Schroders Capital, 2022

# Risk Considerations

- While private assets investments offer potentially significant capital returns, funds and companies may face business and financial uncertainties. There can be no assurance that their use of the financing will be profitable to them or to any Fund. Investing in private asset funds and unlisted companies entails a higher risk than investing in companies listed on a recognised stock exchange or on other regulated markets. This is in particular because of the following major risk factors:
- **Investment risk:** Private asset investments typically display uncertainties which do not exist to the same extent in other investments (e.g. listed securities). Private asset investments may be in entities which have only existed for a short time, which have little business experience, whose products do not have an established market, or which are faced with restructuring etc. Any forecast of future growth in value may therefore often be encumbered with greater uncertainties than is the case with many other investments.
- **Capital loss risk:** The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested.
- **Market risk:** Market risk is the risk of investment losses due to negative effects of the capital markets on the overall performance of the fund.
- **Credit risk:** The fund will have an investor commitment/draw-down funding model which exposes the investment vehicle to the credit risk of its investors. If an investor fails to comply with a drawdown notice, the investment vehicle may be unable to pay its obligations when due.
- **Liquidity risk:** Given the illiquid nature of private asset investments, investing in private assets are subject to asset liquidity risk. This liquidity risk is a result of the likelihood that a loss from current net asset value would be realised if an asset in the fund needed to be sold quickly in the secondary market to meet the obligations of the fund.
- **Currency risk:** Investments in companies or instruments which are denominated in currencies other than the fund's respective currency expose the fund to the risk of losses in case foreign currencies depreciate.
- **Operational risk:** Operational risks are risks of loss resulting from inadequate or failed internal processes, people and systems, or from external events conducted by Schroder Adveq and the managers the fund will invest alongside.
- **Valuation risk:** It may be difficult to find appropriate pricing references in respect of unlisted investments. This difficulty may have an impact on the valuation of the portfolio of investments of a Sub-Fund. Certain investments are valued on the basis of estimated prices and therefore subject to potentially greater pricing uncertainties than listed securities.



# Important Information

- **Marketing material for professional clients only.**
- Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested. Exchange rate changes may cause the value of any overseas investments to rise or fall.
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