Issued in December 2009

Schroder Asian Growth Fund
Monthly Fund Update

In summary

Asian equities had a positive month, though concerns about Dubai's credit worthiness took some of the shine off the gains in late November. The fund generated a positive return, outperforming its benchmark over the month. We believe that the outlook for the global economy remains far from certain, so we continue to invest quite cautiously. That said, we remain confident that Asia stands in good stead to deal with the current headwinds as regional banks are well capitalised, and government, company and consumer balance sheets are strong. Against that, we remain positive on domestic-focused companies, which should be better positioned to survive the uncertainties in the market and still benefit from the region's strong long-term domestic demand story. In fact, we believe that the current volatility in the market should create some good entry points for long-term investors looking to take advantage of these favourable trends.

The market and the drivers of fund performance

The fund outperformed its benchmark in November, primarily as a result of its overweight in the consumer staples sector. A key contributor in the sector was **China Mengniu Dairy**, which rose on the company's market share gain and on the continuing sales recovery from previous milk scandals. Industrial stock **China High Speed Transmission** also added to performance gains after the stock rallied on the re-rating of alternative energy stocks and strong earnings growth. Gains were further extended by our holdings in financial stock **DBS Group**, after the bank reported much better than-expected third quarter profits. **China Taiping Insurance**, which strengthened on the successful merger of Ming An Insurance and on the continued opportunities in the Chinese life insurance sector, also helped to lift portfolio performance. Conversely, some of the portfolio's key detractors included our overweights in **Swire Pacific** and **Kerry Properties**, which retreated on concerns over the government's policy initiatives to cool property prices.

The market outlook and portfolio strategy

We believe that Asian stock markets are likely to remain volatile in the foreseeable future as uncertainties about the outlook for global growth remain. While we do not necessarily anticipate a sharp market correction, earnings expectations have been significantly revised up, which could lead to disappointment given the global imbalances still plaguing the markets. These imbalances will likely act as a headwind to economic growth further out, hampering regional earnings growth. So with the outlook for the global economy still far from unequivocal, combined with the excellent performance of Asian stock markets in 2009, we would not be surprised to see profit taking, with long-term investors switching into companies with strong fundamental support.

This sits well with our approach to investing, with our portfolios currently defensively positioned. Moreover, with the markets now 'normalising', we would expect to see more differentiation at both the sector and company level, and in turn, a market conducive for stock pickers in 2010. Areas of particular interest to us are in the Asian consumer space, insurance, property, as well as infrastructure-related and yield-focused companies, where we are finding valuation merit, and which should do well in this environment. Not only do they offer some downside protection should markets stumble, but they should also benefit from their exposure to Asia's increasingly important consumption and investment trends. On the other hand, we remain cautious on those stocks most sensitive to the global demand outlook, where we feel that valuations and market expectations are too high.

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