

Quarterly Fund Update

Schroder Alternative Solutions* Gold and Precious Metals Fund

Fund Overview

The fund aims to give investors diversified exposure to gold and precious metals via investments in gold and precious metals futures, swaps, ETFs and precious metal related equities.

For clients wishing to have an exposure to gold, the fund can be considered as a more attractive vehicle compared to single physically backed ETFs. In addition we would regard the fund as being complementary to gold mining funds, which have significant equity market risk and a lower correlation to the gold price. Although index-unconstrained, the fund is a beta or beta plus product with the return objective of outperforming with lower volatility a benchmark comprising of 75% Gold Spot price and 25% NYSE Gold Bugs Equity Index.

Performance

US\$ A Shares Net %	Q4	Q3	June	*May	Since Inception*
	2011	2011	2011	2011	Cumulative Total Return
Schroder AS Gold & Precious Metals	-4.41	3.00	-2.42	-2.29	-6.12
75% Gold Spot/25% NYSE Arca Gold Bugs Equity Index	-4.06	6.37	-3.13	-0.08	-1.23

Source: Schroders

* Inception 3 May 2011

Review

During the fourth quarter of 2011 gold fell by -3.7%, in tandem with most other risk assets. As the Euro crisis escalated, the gold price suffered from a strong Dollar and forced selling/profit taking (once again driven by liquidity needs). An additional negative factor was lower physical demand from India, as in rupee terms, the gold price rose 45% to the year's peak.

The fund ended the year with a cash position of around 14%, as we were anticipating a correction in the gold price to the \$1,500/1,600 level, that was reached at the end of the year. At the same time, positioning in the metal had lightened and sentiment (unanimously bullish earlier in the year) had become more mixed. Therefore, gold appears to be in an oversold situation and a near term bottom seems to have been reached. Consequently, within the first days of 2012, we had reduced our cash position to around 4%. Other fundamental factors we took into account were: 1) that the ECB's provision for banks in December was better than expected and in turn it provides liquidity to the market; and 2) gold priced in rupees is now 7% below the record highs it reached in November, thus gradually bringing a recovery in Indian demand.

Gold equities were down -5% during the quarter. Strong earnings continued to be ignored, as fears of downgrades were latently driven by: 1) lower by-product credits what with the decline in base metals and silver; 2) higher taxes in Ecuador, Peru and probably Brazil together with protests and strikes in Peru and Indonesia; and 3) a higher oil price. Gold equities' de-ratings have got to the point where they are trading at base metal type multiples, thus trading down from 1.5x to 1.0x P/NAV on the forward curve, something never seen before. We believe this will provide a fantastic investment opportunity in the future.

* Schroder Alternative Solutions is referred to as Schroder AS throughout this document.



Investment Outlook

Global

- The three drivers of the global macroeconomic outlook, which have been in place for the past three years, remain. (1) the outlook for economic growth, (2) the potential for further unorthodox policy action by central banks, and (3) rising political risk which we view as the primary catalyst for market volatility.
- A recovery is taking place in the US, but it remains to be seen whether momentum will be maintained. There are two challenges: Europe, where we view a recession in 2012 as a high probability, and China, where a soft landing is unlikely in view of: the challenges facing the banking system (bad loans, leverage), a falling stock market, house price declines, apparently high levels of inventory and overcapacity, and the potential for decreased exports.
- Policy-wise, there is little which can be sanctioned before further significant market weakness. QE3 by the Fed cannot be justified due to improving data, and current politics does not yet allow the ECB to intervene to the extent needed to support the bond markets of Italy, Spain, and possibly France.
- As the recent events in Europe and Iran have demonstrated, the influence of political risk on asset prices continues to rise - we expect that this will continue during the next 12 months, as it seems that the opportunity to fashion a meaningful political solution to the European debt crisis has now passed. Our central scenario is one of equity or bond markets, or both, becoming increasingly disorderly as a result of forced liquidation; ratings being a possible catalyst.
- In summary: we do not see any reason to expect top down support for commodity markets during the next quarter, and remain extremely risk averse. We note that current margins of safety in financial assets (bond yields, p/e ratios) are wholly inadequate in view of the risk investors are being asked to bear.

Metals

- No change on previous quarters. Base metals are in oversupply (e.g. record highs in aluminium and 41-year highs in lead) and are dependent on Asia, and China in particular, to drawdown ever greater quantities of metal. Given our macro views on China and Europe, we think this extremely unlikely; prices must adjust lower to ration supply. Exposure is limited to aluminium (price close to marginal cost) and copper (least worst supply demand balance).
- In the long-term, we believe that inflation will rise sharply as a result of past, present and future central bank balance sheet expansion, which will provide a backdrop conducive to a further rally in precious metals. In the near-term, it is unlikely that precious metals will be immune from severe weakness if there is a disorderly de-risking in other markets, but we do believe their downside should not be as significant, and that they will recover more quickly.
- Gold will continue to remain a core position in the portfolio throughout the first quarter, but silver is best avoided until key lows are in place.

Equities

- Commodity related equities look attractively valued in relation to current forward curves. However, there is significant potential for earnings downgrades which will be driven by lower commodity prices and increasing taxes over the next quarter. Recent negative news pointed in this direction: changes in mining laws in Ecuador, Peru and India together with protests and strikes in Peru and Indonesia. We believe that opportunities will emerge to buy these companies at much lower valuations (as was the case in 2009), but markets still have some distance to travel first. On a relative basis, gold and agricultural companies look more defensive given the smaller downgrades expected.

Chart Analysis

- No change on previous quarters. Having peaked in April, broad measures of the asset class are now well established in a bear trend. The preferred outlook for energy and metals markets, when interpreted from an Elliott Wave view point of view, is bearish. Alternate interpretations, which are a very low probability, allow for a violent rally which would allow energy and metals to challenge record highs before a multi-month, and likely severe, correction.

Sentiment Analysis

- The CoT index is in oversold territory for many agricultural markets (wheat, all the soybean complex products, sugar and cocoa) and silver. We note that net fund positions are very low, by historical standards, for wheat, soybean meal, cocoa and silver markets which could in turn fuel a bullish trend in the event of key technical signals being triggered. The index is neutral for both the energy and base metals sectors this quarter.
- The Market Vane indicator remains neutral for metals.

Rob Howell / Rodolphe Roche / Paula Bujia – 14 December 2011

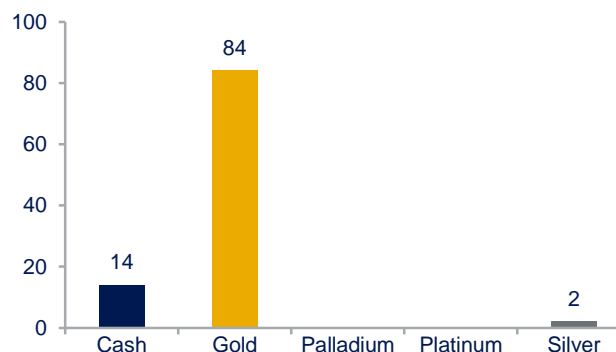
Asset Allocation as at 30 December 2011

Holdings as at 30 December 2011

	%
Futures	30.1
Equities	17.6
ETFs	38.2
Cash	14.0

Source: Schroders (top 5 holdings and sector allocation)

Sector Allocation as at 30 December 2011 %



Fund information as at 30 Dec 2011

Fund manager	Paula Bujia
Managed fund since	7 July 2008
TER (A Shares)	Est. 1.91%
Launch date	7 July 2008
Fund size	US\$393 million
No. of holdings	23

Source: Schroders

Risk Warnings:

Indirect investment in commodities may cause the fund to face market risk from the value of the underlying asset together with geopolitical, supply, currency exchange rate and interest rate risks. Important Information: Schroder Alternative Solutions (the "Company") may not be sold in the United States nor to Citizens or residents of the United States.

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