

# Schroders

## Fund Update

### Schroder International Selection Fund\* Emerging Markets Debt Absolute Return

#### Fund overview:

The Schroder ISF Emerging Markets Debt Absolute Return team manages global emerging market debt funds using a variety of instruments and techniques in an effort to enhance overall risk-adjusted returns. The funds' aim is to achieve high, long-term absolute returns while keeping volatility to a minimum. Specifically, the team aims to make positive absolute returns in any 12 month period. Schroders benefits from the consolidated experience and proven track-record of the Schroders Emerging Markets Debt team, led by Geoff Blanning since 1998, with a total of four professionals based in London and Buenos Aires. The team manages "absolute return" EMD funds of over **\*US\$7,252 million** as at 31 October 2011 on behalf of private clients, institutional and retail investors worldwide.

\*Source: Schroders

#### Schroder ISF EMD AR Performance to October 2011

% *	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	YTD
2000		3.30	2.40	-1.90	-1.52	4.66	3.55	2.35	-1.89	-0.39	1.36	3.97	16.75
2001	3.18	-0.77	-1.59	-2.59	1.24	1.67	0.12	4.30	-3.78	0.31	-0.24	0.31	1.90
2002	0.78	2.25	-0.15	4.34	3.14	2.90	-0.07	2.54	0.94	0.86	2.37	3.80	26.31
2003	1.86	0.24	-0.30	2.50	1.66	0.99	-0.64	-0.12	1.34	-0.98	-0.64	2.75	8.93
2004	-1.14	0.63	1.03	-1.19	-0.23	-0.52	0.64	-0.23	2.19	2.14	3.91	2.60	10.13
2005	-1.76	1.58	-1.50	-0.11	-0.42	0.26	0.79	-0.52	-0.37	0.63	0.21	-0.10	-1.34
2006	2.51	0.92	1.32	1.90	-1.18	-0.84	0.85	0.84	0.34	1.23	2.47	1.42	12.36
2007	-0.93	0.85	0.65	1.07	-0.09	-0.28	0.60	-1.14	2.18	2.36	0.80	-0.04	6.11
2008	1.36	1.73	1.07	-0.84	-0.85	-0.26	0.39	-2.91	-2.78	-3.45	1.41	3.15	-2.20
2009	-1.89	-2.15	1.03	3.80	6.34	0.97	2.95	0.85	3.60	1.35	1.07	-1.43	17.39
2010	0.27	-0.11	0.27	0.30	-0.99	0.65	0.15	1.56	0.11	0.52	-2.64	0.92	0.96
2011	-0.87	0.08	0.46	2.55	-1.89	-0.11	0.42	-0.30	-1.17	-0.19			-1.10

\* Performance is presented on USD A NAV NET basis

#### Review

- Schroder ISF EMD Absolute Return retained a very defensive position during the recent large swings in asset prices. As a reminder, the fund has minimal exposure to credit, duration and currencies.
- The bounce experienced in October has clearly been larger than what we expected. This rebound has been particularly evident in sovereign external debt and in certain corporate names. These markets have recovered to levels which have started to challenge the bearish outlook of our Chart Analysis. Therefore, a continuation of the bounce will probably lead the investment team to scale down its current ultra-defensive positioning, by adding small positions in very liquid assets (such as currencies) in a few countries which have been highlighted in recent reviews as still fundamentally improving on a long-term trajectory (e.g. Mexico, Chile and South East Asian countries).
- Apart from these potential small changes, the portfolio will remain structurally very defensive. We reiterate our view that the valuations of EM bonds are nowhere near close to reflecting the size and complexity of the global debt overhang that is still intensifying in the US, Europe, China and elsewhere.

\* Schroder ISF Emerging Markets Debt Absolute Return is referred to as Schroder ISF EMD AR throughout this document.



- In this regard, the October EU summit has not brought any new credible solution. Even for Greece, which reportedly will benefit from a 50% debt haircut, we remain sceptical that this would put the country on a sustainable debt trajectory.
- While global credit and currency markets have so far ignored the serious shortcomings of the Eurozone summit, the yields of European peripheral government bonds have failed to react positively. As a matter of fact, the Italian government bond market continued to collapse in the aftermath of the EU and G20 summits. This is a worrying development, as it highlights that global financial liquidity is continuing to tighten viciously, that the deleveraging is accelerating and that conventional policies of crisis resolution have failed to be effective in resolving the European debt crisis.
- Other markets which have failed to respond positively in October included Hungary, where the currency weakened to new lows against the Euro. Hungary is probably one of the countries that has progressed the most in recent years in reducing fiscal and current account deficits. Despite the results achieved in this area, it is not yet reaping the rewards. This shows how difficult it is to regain confidence even when proper adjustment policies are implemented.
- Because of the rapidly worsening growth outlook and the renewed tightening in global financial liquidity (triggered by Eurozone debt problems), markets will be in a process of questioning all types of issuers. This will be particularly the case for EM countries which have experienced a credit boom (e.g. China and Brazil) or with balance of payments vulnerabilities (e.g. Turkey and most of Eastern Europe). Therefore, we continue to approach most EM assets with extreme caution until we have evidence that the re-pricing that started in September has run its course.

## Asset Allocation as at 31 October 2011

### Holdings as at 31 October 2011

	Exposure	Duration
China	0.4	2.8
Mexico	0.7	1.3
Poland	1.3	0.7
<b>External Debt</b>	<b>2.5</b>	
China	6.0	0.2
Czech Republic†	7.7	1.3
Hungary	1.6	0.9
Indonesia†	5.8	3.1
Korea†	3.8	2.3
Japan	2.9	0.2
Malaysia†	5.9	2.0
Mexico†	7.0	0.7
Poland†	4.2	0.8
Singapore†	11.4	1.0
South Africa†	1.9	2.0
Taiwan†	0.7	0.5
Thailand†	2.0	1.2
<b>Local Debt</b>	<b>60.7</b>	
Cash	36.8	
<b>Cash</b>	<b>36.8</b>	

†Hedged  
 ^Partially Hedged  
 Source: Schroders

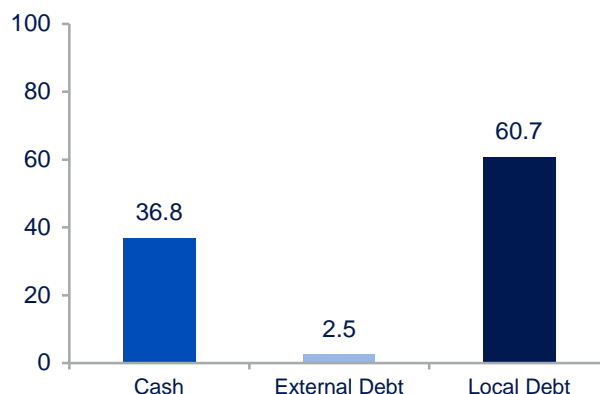
### Performance Overview

Since Dec 1998*	Fund	EMBI+	ELMI+**
Annual Rate of Return %	11.14	12.05	8.17
Annual Volatility %	6.59	10.65	7.52
Sharpe Ratio	1.31	0.92	0.77
Sortino Ratio	2.65	1.15	0.87
Correlation	1	0.62	0.59
Positive Quarters %	86.27	74.51	72.55
Maximum Drawdown %	-9.26	-19.71	-19.93
Best Month %	8.84	8.52	5.52
Worst Month %	-3.71	-13.79	-8.73
Max 12M Rolling Return %	33.35	40.19	20.29
Min 12M Rolling Return %	-7.19	-18.15	-13.87

\* Since inception of current fund manager

\*\* ELMI to 31.01.02 (Index discontinued)

### Sector Allocation as at 31 October 2011 %



Fund Summary	%
Yield to Maturity	0.78
USD Exposure	90
Duration (years)	0.81
Average Credit Rating	AA-
Corporate Exposure	0

Investments in emerging markets are subject to market risk and, potentially, liquidity and currency exchange rate risk. Investments in debt securities are primarily subject to interest rate, credit and default risks and, potentially, to currency exchange rate risk.

This fund may use financial derivative instruments as a part of the investment process. This may increase the fund's price volatility by amplifying market events. Investments in absolute return funds are primarily subject to interest rate, market, liquidity, credit and default risks and, potentially, to currency exchange rate risk.

Important Information: This document does not constitute an offer to anyone, or a solicitation by anyone, to subscribe for shares of Schroder International Selection Fund (the "Company"). Nothing in this document should be construed as advice and is therefore not a recommendation to buy or sell shares.

Subscriptions for shares of the Company can only be made on the basis of its latest prospectus together with the latest audited annual report (and subsequent unaudited semi-annual report, if published), copies of which can be obtained, free of charge, from Schroder Investment Management (Luxembourg) S.A.

An investment in the Company entails risks, which are fully described in the prospectus.

Past performance is not a guide to future performance and may not be repeated. Investors may not get back the full amount invested, as prices of shares and the income from them may fall as well as rise.

Schroders has expressed its own views and opinions in this document and these may change.

This document is issued by Schroder Investment Management Limited, 31 Gresham Street, EC2V 7QA, authorised and regulated by the Financial Services Authority.

For your security, all telephone calls are recorded.