

# Schroder Asian Growth Fund

## Monthly Fund Update

### Fund Performance

In SGD Terms	1 month (%)	3 months (%)	6 months (%)	Year-To-Date (%)	1 Year (%)	2 Years (% p.a.)	3 Years (% p.a.)	Since Inception (% p.a.)^
Fund	8.53	-6.11	-7.98	-8.59	-5.29	5.91	23.37	8.92
Benchmark*	7.98	-8.97	-12.24	-10.85	-7.87	2.10	17.60	5.65

Source: Schroders, Morningstar, as at 31<sup>st</sup> October 2011. Please note that past performance is not indicative of future returns. Performance above reflects that of the Fund's SGD Share Class, on a bid-to-bid basis.

^ Since inception returns are measured from 31<sup>st</sup> May 1991; fund was incepted on 8<sup>th</sup> May 1991.

\* MSCI AC Far East ex Japan Index.

### Market Commentary

Three important factors drove global equity markets higher over the month: 1) the positive outcome of the recent European summit where policy-makers reached an agreement on Greece, boosting confidence that the debt crisis could be contained, 2) US economic data surprising on the upside, and reducing fears of a recession and 3) diminished concerns of a hard-landing in China. These macro tailwinds also lifted market sentiment in Asia, where regional indices saw a sharp rebound in October.

Over the month, the MSCI AC Far East ex Japan (7.98% in SGD terms) outperformed the MSCI World Index (6.02% in SGD terms).

Across the region, China (10.62%) and Korea (10.54%) performed the best over the month (in SGD terms). The Materials, Financial and Industrial sectors in China boosted broad market performance. The Chinese government started easing monetary policies in selected sectors to promote growth and Chinese shares rallied as concerns over an economic hard-landing were reduced. The Korean equity market performance was lifted by gains across most sectors on hopes of a recovery in global demand, most notably the Utilities, Energy and Information Technology sectors.

On the other hand, Taiwan (2.63%) and Indonesia (4.21%) were the weakest markets across the region (in SGD terms). The Telecoms, Consumer Staples and Information Technology sectors in Taiwan saw relatively lower gains over the month. In Indonesia, the market was weighed down by its Telecoms and Consumer Staples sectors.

Across sectors, Industrials and Materials were among the strongest performing, while Telecoms and Healthcare were the weakest over the month.

### Performance Commentary

Over the month of October 2011, the portfolio outperformed its benchmark. Outperformance stemmed primarily from positive stock selection in **Taiwan**, **Singapore** and **China**, as well as from the underweight allocation to **Taiwan**. However, stock picks in **Thailand** partially offset relative outperformance.

In China, the overweight in *Hollysys Automation Technologies* was a significant contributor, with its stock price rebounding from a very oversold level over the month. Performance was also helped by other Chinese property stocks such as *Franshion Properties* and *China Vanke*, both which similarly recovered from oversold positions on hopes of easing government policy. Another key contributor was the nil exposure to *China Mobile*, which added value to relative performance as a result of decelerating revenue growth and concerns over margin pressure. In Taiwan, the overweight in *Hon Hai Precision Industry* lifted performance as its parent company's 3Q11 net profit results exceeded market expectations, while holdings in Singapore Offshore and Marine stock *Sembcorp Marine* contributed positively on the confidence in new rig order momentum.

Major detractors which mitigated the Fund's outperformance included its exposures to *Land & Houses* and *CP All PCL*. Land & Houses was weighed down by concerns that delays of potential new launches due to the Thai

floods would drive revenue lower, while CP All PCL fell on worries over increased competition in the retail sector and delivery disruptions to its stores as a result of the Thai floods.

## The market outlook and portfolio strategy

What a difference a month makes. Having bounced 20% from their recent lows, Asian equity markets are now back to where they were in mid-August, as if the September collapse had never happened.

We continue to think that the structural problems in Europe are unsolved and the outlook for growth in Western economies is very weak in coming quarters, with recession a real risk in many countries. However, valuations in early October were approaching past crisis lows, discounting a pretty severe collapse in earnings in 2012, and sentiment was near universally negative, so a bounce from such 'oversold' levels should not be a surprise. Slightly better US economic data and hopes for an easing of policy in China has helped extend this rally in recent weeks.

We remain comfortable with the macro fundamentals in most countries in Asia and at current levels we continue to see attractive value in many markets (albeit less compelling than a month ago), but given the unfinished business in Europe and the US, where politicians are yet to present credible plans to stimulate growth or reduce structural deficits, we should be prepared for continued volatility in markets and a possible re-test of recent lows. Very difficult political compromises need to be made, which by their nature cannot be rushed, and hence this process of push and pull between markets and politicians could extend for some time.

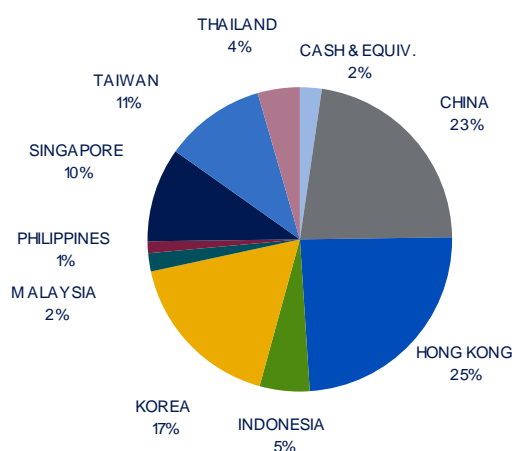
We have been fairly cautious about the medium term outlook for global growth for some time and the Fund remains underweight in those industries most closely geared into the Western economic cycle - i.e. energy, materials, shipping. We have also had a more cautious view on much of the Chinese property and banking sectors, in particular the second tier names that are most vulnerable to the current policy tightening and any deterioration in credit quality.

More generally, the Fund is underweight direct 'China' exposure with a preference for more domestic Hong Kong blue-chips as we continue to see an accommodative policy stance in Hong Kong - given the low HK\$/US\$ interest rate picture - and a favourable supply picture for both commercial and residential property, which should put something of a floor under capital values in the city. Although we may start to see some selective easing of credit and administrative controls in China, now that GDP growth is clearly slowing and the headline CPI has peaked, we expect this to be gradual and the pressure to remain on the more politically sensitive property market.

We continue to use the on-going volatility to add to our highest conviction ideas and also to buy into new names which we think may be unfairly punished in a sell-off, particularly those with a strong domestic focus to their operations where we can see robust growth drivers that can overcome the inevitable headwinds from slower Western growth.

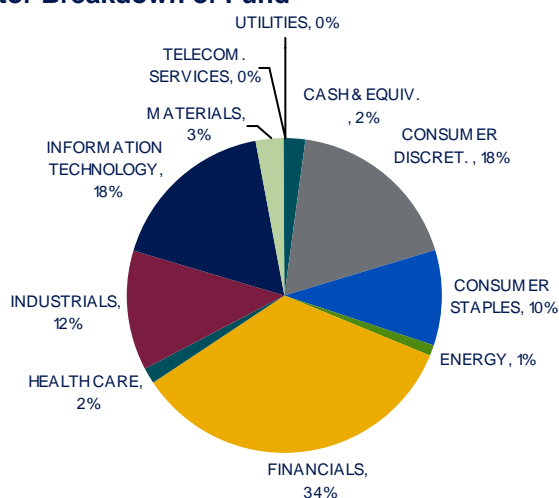
## Asset Allocation

### Country Breakdown of Fund\*



\*As at 31<sup>st</sup> October 2011

### Sector Breakdown of Fund\*



\*As at 31<sup>st</sup> October 2011

**This report includes some views on the specific underlying securities of the fund, but the views are not necessarily indicative of the future or likely performance of the underlying securities of the fund.**

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