

Schroders Singapore Fixed Income Strategy Update

Investment objective

The investment objective of the strategy is to provide investors with diversified exposure to the Singapore fixed income market through investment in Singapore dollar denominated bonds.

The strategy will invest in a diversified portfolio of Singapore dollar denominated fixed income securities, including debt securities issued by the Singapore Government, Singapore statutory boards and corporates with issuer credit ratings of at least Baa by Moody's, BBB by Standard and Poor's or BBB by Fitch Inc (including sub-categories or gradations therein). The strategy may also invest in non-rated debt securities issued by Singapore-incorporated entities and Singapore statutory boards.

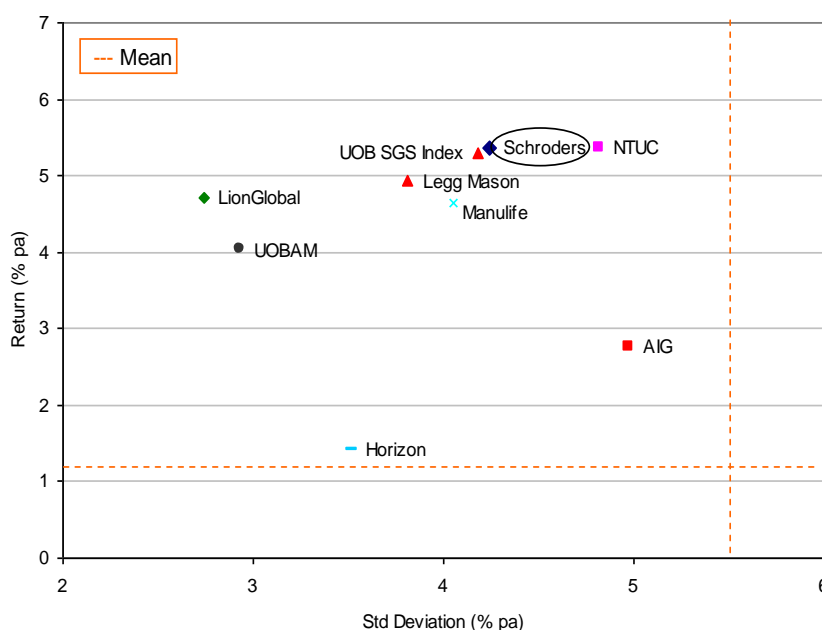
Schroders' Singapore Fixed Income

Performance as at 31/07/10	1 mth	3 mths	YTD	1 yr	3 yrs (p.a.)	Since Inception
Schroders' Singapore Fixed Income	2.01%	4.55%	5.64%	6.65%	5.37%	4.34%
UOB SGS All Series Index	1.91%	4.32%	5.46%	5.38%	5.29%	4.42%

Source: Schroders, Bloomberg, based on Schroder Singapore Fixed Income Fund, I class shares, as at 31 July 2010, NAV-to-NAV, net of management fees, dividends reinvested, in SGD. Inception: 4 October 2005.

Peer comparison (3 years)

Relative to the Lipper universe, Schroders' Singapore Fixed Income strategy has delivered strong returns of 5.37% p.a. over the 3-year period ended July 2010 and is ranked first amongst its industry peers.



Manager	Return (% pa)
Schroders	5.37
AIG	2.77
Horizon (DBSAM)	1.41
Legg Mason	4.94
LionGlobal	4.72
Manulife	4.64
NTUC	5.36
UOBAM	4.03
Mean ¹	1.30
UOB SGS All Series Index	5.29

Source: Lipper Hindsight as at 31 July 2010. Fund returns are net of management fees in SGD.

¹ Mean is calculated from Lipper Global - Singapore Bond Universe. The above is for illustrative purposes only and does not constitute a recommendation to invest or divest in the above mentioned funds. Past performance is not indicative of future returns.

Performance commentary

In July, the strategy achieved a positive return of 2.0% and outperformed the all-government benchmark index, UOB Singapore Government Bond index, by 10bps. The fund's duration positioning at the long end of the curve was the main contributor to relative performance during the month due to bullish flattening of the curve.

The market and the drivers of performance²

Investment risk appetite recovered globally in the latter part of July, underpinned by better-than-expected US 2Q corporate earnings, a perception that the EU sovereign stress has stabilized following its bank stress test results, and expectations that the worst in China's policy tightening could be behind us. In this 'risk-on' environment, inflows continued their rush into emerging markets, both bonds and equities. In Singapore, government bonds rallied on local duration demand from domestic institutions with 10Y bonds declining by 42bps.

The market outlook and portfolio strategy

We believe caution is still warranted for the next few months given the range of stresses facing Asia and the West. Europe is clearly facing significant headwinds, with confidence still low (despite a trillion dollar bailout), the banking sector under strain given high public and private sector debt, and deflation posing an increasing threat. Equally, the US is facing the prospect of weakness following stimulus withdrawal, which would add to the structural problems already besetting the economy (like deleveraging, housing market weakness and high unemployment). Finally, China – the key global growth driver in 2009 – is facing immense domestic policy challenges in order to achieve a much desired 'soft landing'.

These fundamental considerations, along with chart patterns (showing risk assets rolling over globally) and investor positioning (with mutual fund flows reflecting few signs of panic), suggest that the current bout of risk aversion can persist, or even escalate. As such, we expect a bullish curve-flattening scenario is likely ahead in government bond markets, led by the US, with positive spill-over effects onto Singapore.

In the Singapore bond market, despite the recent decline in Singapore bond yields, Singapore's aggressive policy for an upward re-centering of the SGD policy band and the resumption of a modest and gradual appreciation stance is likely to keep Singapore bonds attractive to offshore investors in an environment of low interest rates. Inflation has averaged 1.5% per annum in the past decade due to the successful anchoring of expectations by the authorities using FX policy. Historically, investors of Singapore long bonds are thus well compensated given a real interest income of 1% -1.5% per annum. We believe that Singapore bonds will also benefit from a risk aversion environment which we believe will continue to persist ahead. For our strategy, we will maintain low exposures to corporate credits (around 20.8% as at end-July 2010) and will maintain a neutral to slightly overweight duration bias in light of our defensive stance.

On the economics front, industrial production declined 23.4% in June primarily due to a large pull-back in the pharmaceuticals / biomedical sectors after very strong year-to-date growth. Inflation eased to 2.7% yoy in June, down from 3.2% yoy in May. Core inflation (ex accommodation and private transport) remained steady at 1.7% yoy. The Q2 2010 unemployment rate edged up slightly by 0.1% to 2.3%.

² For illustrative purposes and does not constitute to any recommendation to invest or divest in the above mentioned securities.

Key portfolio characteristics

Characteristics	Portfolio
Yield to Maturity	1.57%
Duration	5.70 years
Average Maturity	6.75 years
Average Credit Rating	AA-

Source: Schroders, as at 31 July 2010.

The Schroders' advantage

- **One of the largest dedicated Asian/Singapore Fixed Income teams** in the world with an average investment experience of 14 years (as of 30 Jun 10) and strong stability.
- **Pioneer investor in the Asian/Singapore Fixed Income markets**, led by Goh How Phuang, who has invested in Asia for more than 10 years since the Asian Crisis in 1998. Our investment process is robust, having stood the test of time.
- **Benefit of strong integration with Schroders' global resources**, with seamless access to proprietary inputs from professionals worldwide offering significant depth and resource.
- **Proven, repeatable track record & long-term commitment** to the Singapore fixed income market, having managed Singapore fixed income strategies since 1984 for local institutions.
- **Strong focus on risk management: we take a banker's perspective** – we are lending our client's money which means that we are prudent in our approach to investment and focus on generating strong *risk-adjusted* returns.

The portfolio managers

The Asian/Singapore Fixed Income strategy is managed via a team approach under the stewardship of Goh How Phuang as illustrated in the chart below. The lead portfolio manager for Singapore Fixed Income is Ang Chow Yang working closely with Kevin Foo. Within the Asian fixed income team, there are four dedicated credit analysts who are members of the Global Credit Research Team responsible for Asian (including Singapore) credit analysis.

Goh How Phuang Head of Asia ex Japan Fixed Income (Overall strategy / Rates / Currencies) (21 yrs / 15 yrs)					
Ang Chow Yang Portfolio Manager (Rates / Currencies) (11 yrs / 9 yrs)	Angus Hui Portfolio Manager (Credits) (13 yrs / 10 yrs)	Richard Brown¹ Head of Credit Research (26 yrs / 10 yrs)	Willy Lee⁵ Fixed Income Dealer/ Technical Analyst (16 yrs / 16 yrs)	Corin Su⁷ Fund Manager's Assistant (17 yrs / 3 yrs)	Dianna Enlund⁶ Product Manager (12 yrs / 7 yrs)
Kevin Foo⁴ Credit Analyst / Portfolio Manager (4 yrs / 4 yrs)	Ng Peng Fong³ Credit Analyst / Portfolio Manager (4.5 yrs / 2 yrs)	Yeo Li Ping² Credit Analyst (15 yrs / 4 yrs)	Kell Ow⁵ Fixed Income Dealer (7 yrs / 4.5 yrs)	Becky Khoo⁷ Fund Manager's Assistant (14 yrs / 1 yr)	

Notes:

1. Covers Natural Resources, Real Estate, Food & Consumer Goods, ASEAN IG Banks sectors. Reports to Global Head of Credit Research.
2. Covers TMT, Transport, Utilities, Asian HY Banks sectors.
3. Covers Oil & Gas, Conglomerates, Infrastructure, North Asian Banks sectors.
4. Covers Singapore Corporate credit research. Portfolio Manager for Singapore Fixed Income Strategy.
5. Reports to Head of Dealing, Asia.
6. Reports to Head of Product, Asia.
7. Reports to Ang Chow Yang.

Source: Schroders as at 30 June 2010.

The biographies of Goh How Phuang, Ang Chow Yang and Kevin Foo are appended below.



Goh How Phuang is the Head of Asia ex Japan Fixed Income.

In this capacity, How Phuang is responsible for investment strategy for Asian fixed income markets and day-to-day management of Asia ex Japan fixed income portfolios.

How Phuang joined Schroders in 1994 and is based in Singapore. Previously, he spent 5 years at the Monetary Authority of Singapore on the Domestic Money Market Desk.

How Phuang is a CFA Charterholder and holds a Degree in Accountancy from the National University of Singapore.

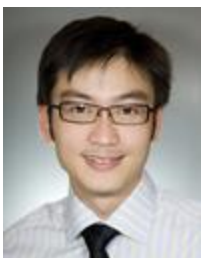


Ang Chow Yang is the lead portfolio manager for our Singapore Fixed Income strategy.

Based in Singapore, Chow Yang is responsible for the Asian interest rate and currency strategy formulation for pan-Asian bond portfolios. He is also the lead manager for the HKD fixed income portfolios.

Chow Yang joined Schroders in 2001 as an equity fund manager's assistant and was appointed to the Schroders Asian fixed income team in August 2004. His investment career commenced in 1999 as a treasury product control analyst with JP Morgan.

Chow Yang is a CFA Charterholder and holds a Degree in Business from Nanyang Technological University.



Kevin Foo is a credit analyst / portfolio manager for our Singapore Fixed Income strategy.

Based in Singapore, Kevin is responsible for credit research of Singapore corporates. Additionally, Kevin is a trainee portfolio manager for Singapore fixed income portfolios.

Kevin joined Schroders in 2006. His investment career commenced in 2003 as an Investment Executive with Nomura Asset Management assisting fund managers in the Equity Investment Team with various investment-related activities.

Kevin is a CFA Level II candidate and holds a Bachelor of Commerce degree from University of Melbourne.

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