

# Schroders Fund Update

## Schroder Alternative Solutions Gold & Metals Fund\*

### Fund overview:

The Schroder Alternative Solutions Gold & Metals Fund aims to offer investors a pure exposure to gold and other metals in a long only, unleveraged, actively managed, index-unconstrained fashion.

Although index-unconstrained, the Fund is a beta or beta plus product with the return objective of outperforming a performance benchmark comprising of 75% of the Rogers International Metals Total Return Index and 25% Gold Total Return Index<sup>†</sup>, with lower volatility. This benchmark has a weighting of 50% base metals and 50% precious metals, with gold having a neutral weighting of 35%.

The Fund aims to achieve this in the long-term by investing directly through global metals markets via commodity related instruments.

US\$ I Shares%	May 2010	YTD 2010	2009	2008*	Since Inception*		
					Cumulative Total Return	Volatility	Sharpe Ratio
Schroder AS Gold & Metals Fund	-4.50	-1.11	61.60	-36.24	1.89	22.96	0.14
Gold & Metals Benchmark <sup>†</sup>	-5.44	-0.73	59.58	-36.14	1.17	23.75	0.13

US\$ A Shares%	May 2010	YTD 2010	2009	2008*	Since Inception*		
					Cumulative Total Return	Volatility	Sharpe Ratio
Schroder AS Gold & Metals Fund	-4.48	-1.90	58.48	-36.90	-1.90	22.95	0.05
Gold & Metals Benchmark <sup>†</sup>	-5.44	-0.73	59.58	-36.14	1.17	23.75	0.13

Source: Schroders; Rogers International Commodities Metal TR Index; Dow Jones AIG Gold TR Index

\* Inception 7 July 2008

†The Gold TR Index is based on the performance of the DJ AIG Gold TR Index (DJAIGCTR Index)

### Review

May was a bleak month for commodities; three of the four main indices experienced their largest monthly falls since the height of the bear market in December 2008. Outside the asset class, and with the exception of the dollar and treasury markets, virtually no market was exempt from weakness. During the course of the month it seemed as if every investor across the globe could find something which prompted serious concern, regardless of their location or their investment. Concerns surrounding government debt dynamics and political stability in the European Union adversely impacted stock markets across the continent and proved a catalyst for the weakening of the euro versus its major trading partners. Elsewhere, Asian markets were troubled by concerns of a hard landing in China, as policy measures aimed at cooling the housing market continued to be implemented and in the United States, many investors, ourselves included, were given to wonder why the positive sentiment which had been generated by first quarter earnings a few weeks previously had been so quick to disappear. Unsurprisingly, not one of the four sub-sectors within the asset class was able to generate a positive return; energy was the worst performing sector with -14.8%, followed by base metals -10.9%, agriculture -6.0%, and precious metals -2.7%. In relative terms, the strategy fared well during May as levels of cash were raised quickly once stop losses in major markets were triggered by mid-month; performance was -8.04% versus the composite benchmark return of -9.67%.

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

## Metals

Base metals markets suffered a second month of weakness during May, as concerns regarding the extent of any potential slowdown in Chinese demand began to become more widespread. The worst performing metals on the month were nickel, lead and zinc which lost -18.8%, -17.0% and 1-5.3% respectively. Exposure to all three of these markets was cut to zero on the first trading day of the month, as stop losses in all markets were triggered. This resulted in our base metals exposure consisting only of aluminium and copper for the month of May, both of which suffered losses: -9.4% and -6.6% respectively. Much of the explanation for these performances lies in the performance of the Chinese stock market which, at the time of writing, has lost almost -24% since last November and currently sits at a 13 month low.

From the standpoint of the fundamentals of supply, demand and inventories, all of these markets have been flashing amber for some time. We would argue that while prices have exhibited something of a V-shaped recovery, the same cannot be said for underlying demand. Yes, there has undoubtedly been cause for optimism where an economic recovery in Europe and the United States has been concerned but this has seemed to be amply reflected in prices for quite some time. In addition, implicit in all forecasts of global economic growth and metals prices has been a resilient and decoupled China. However, with three reserve rate rises already in place this year, an expectation that inflation will be above 3% in May and June and a government which has tightened credit for purchases of multiple homes, increased mortgage rates and down payment requirements, there is now a growing fear that when (not "if") China tightens policy further, base metals markets will hit the windshield. Furthermore, these anxieties are being stoked by those who also maintain a watchful eye on levels of inventory (which are plentiful in every market) and the relationship of prices to the marginal cost of production.

So, with inventories proving plentiful in both absolute and relative terms, supply proving to be relatively unconstrained, demand in China abating somewhat and sentiment rapidly deteriorating, these markets have been proven vulnerable to bearish forces. All of this, it must be argued, should have been enough to cause metals prices to correct, irrespective of any weakness in stock markets or other risk assets. The risk going forward during the next several months is that negative drivers from the bottom up and the top down combine to drive prices much lower from current levels.

In closing, we must also mention precious metals. Despite ripping higher in many other currencies for some time, gold only just managed to eke out a new all-time high of \$1249.40 on May 14th. While we have increased our gold holdings in recent weeks and remain bullish on precious metals, we are somewhat perturbed by the recent lack of momentum and the non-confirmation by silver, as well as by gold stocks. From a technical perspective, these markets have looked pregnant with potential for some time, although if our bullish outlook and substantial positioning within the funds is to be justified, prices need to turn around quickly with only brief corrective pauses. At month-end now we await confirmation from the market that our positive outlook for the market is the correct one, should this prove not to be the case during the month of June, these positions will be reduced substantially.

## Commodity Equities

May was a poor month for commodity related equities, with materials and mining indices falling by around -10%.

The performance of the metals sector reflects the risk aversion sentiment:

- Precious metals outperformed with a flattish performance.
- Base metals and bulk commodities were the weakest.

The above performance is what one would expect in such times of a negative macro environment; we do not expect a turning point yet. Commodity related equities are mostly trading at 10%-15% discount to their NPVs at spot commodity prices and we do not think the current risks justifies buying yet.

The only exception continues to be gold equities, that are trading at a P/NAV of 1.5x which is at its low historic range. With gold closed to its highs, we expect this multiple to reach to the top of the range at 2.0x, accordingly we expect a re-rating of gold equities on top of the gains from the gold price rally. Over last month we have increased our precious metals equity exposure.

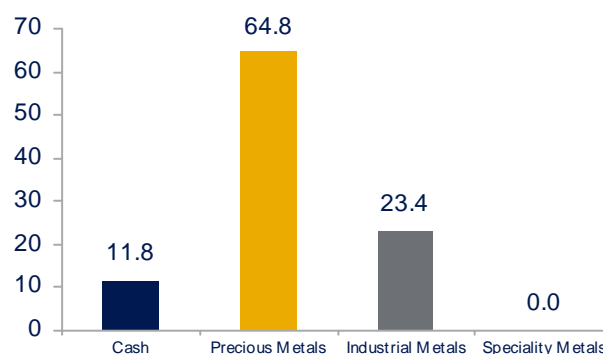
## Asset Allocation as at 31 May 2010

### Top 5 Holdings as at 31 May 2010

Gold	48.2
Copper	12.4
Aluminium	11.0
Silver	10.0
Platinum	6.6

Source: Schroders

### Sector Allocation as at 31 May 2010 %



**Risk Warning:** Indirect investment in commodities and/or real estate 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. For professional advisers only. Not suitable for retail customers.**

This document does not constitute an offer to anyone, or a solicitation by anyone, to subscribe for shares of the Company. Nothing in this document should be construed as advice and is therefore not a recommendation to buy or sell shares. The offering of shares in certain jurisdictions may be restricted and accordingly persons are required, by the Company, to inform themselves of and observe any such restrictions. Applications for shares of the Company can only be made on the basis of the current 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.

Past performance is not a guide to future performance and may not be repeated.

Third party data is owned by the applicable third party identified above and is provided for your internal use only. Such data may not be reproduced or re-disseminated and may not be used to create any financial instruments or products or any indices. Such data is provided without any warranties of any kind. Neither the third party data owner nor any other party involved in the publication of this document can be held liable for any error. The terms of the third party’s specific disclaimers are set forth in the Important Information section at [www.schroders.lu](http://www.schroders.lu).

The value of investments and the income from them can go down as well as up and is not guaranteed, and investors may not get back the full amount invested. Investments in hedge funds involve a high degree of risk.

All or most of the protections provided by the UK regulatory system do not apply to investment in the Company and compensation under the UK Financial Services Compensation Scheme will not be available.

Schroder AS Commodity Fund is not within the scope of the European Union Directive 2003/48/EC (Taxation of Savings Income in the Form of Interest Payments), as implemented in Luxembourg Law

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, which is authorised and regulated by the Financial Services Authority. This document may not be distributed to any unauthorised persons.

For your security, communications may be recorded.