

Quarterly 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. The benchmark has a weighting of 50% base metals and 50% precious metals, with gold having a neutral weighting of 35%[†], with lower volatility.

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

[†]75% Rogers International Metals Total Return Index & 25% Gold Total Return Index (which is based on the performance of the DJ UBS Gold TR Index (DJUBGCTR Index))

Cumulative returns to 30 June 2010

US\$ %	1 month	3 months	6 months	1 year
Schroder AS Gold & Metals Fund*	-0.61	-3.27	-2.50	21.72
Gold & Metals Benchmark [†]	-1.76	-5.22	-2.47	27.63

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

US\$ %	Since Inception **			Euro Hedged %	Since Inception **		
	Cumulative Perf	Volatility	Sharpe Ratio		Cumulative Perf	Volatility	Sharpe Ratio
SAS Gold & Metals Fund*	-2.50	22.45	0.04	SAS Gold & Metals Fund*	-6.40	22.76	-0.10
Gold & Metals Benchmark [†]	-0.60	23.28	0.09	Gold & Metals Benchmark [†]	0.85	23.18	0.06

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

* All tables are shown as A Shares Net
** 7 July 2008

Review

Throughout the quarter, the performance of base metals consistently deteriorated as worries about the global macro picture began to intensify. As noted above, base metals were amongst the worst performers in the asset class, in fact, six of the eight worst performing markets for the quarter were industrial metals. It seemed that concerns surrounding a slowing of manufacturing activity were well founded, as PMI indices and other equivalent measures weakened steadily and meaningfully across the globe, but most especially in China. In addition, housing and employment data in Europe and the United States proved that for those who wished to take an optimistic view of the world, things became more difficult. Certainly, there were some small causes for optimism, most notably stocks of metal on exchange, which, with zinc as a notable exception, declined across all markets. However, declines were also the order of the day on the Chinese stock market also. The Shanghai Composite was down almost 28% for the year by the end of the quarter, and key indicators such as auto sales grew at a slower pace year over year. Throughout the last three months, the funds steadily decreased their exposure to these metals leaving only two positions, copper and aluminium, by the beginning of June.

At the opposite end of the performance spectrum were gold and silver, which returned 11.8% and 6.4% respectively. That these markets should have performed so well, when the defining theme of the quarter was "sovereign risk", is perhaps not so surprising. The number of investors who have recently come to accord some importance to the idea that gold is a "currency of last resort" in a world where governments and central banks ponder the idea of inflating away debt, seems to have grown rapidly during the past quarter. The funds profited by maintaining significant exposure to gold during the last several months, although it must be said that silver's performance was particularly disappointing. Whether this somewhat divergent performance between the metals bodes ill for the future prospects is yet to be seen, but the performance of stocks of the major precious metals producers have not told a particularly encouraging story either. Given our positioning, we remain vigilant for signs of an important top being in place, and are also concerned about the possibility of liquidation risk in the gold market should risk assets weaken further. The tone of the market during the next quarter will be key to determining the prospects for these metals into 2011.

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

Equities

Commodity related equities were very weak during the quarter across all sub sectors, testing and breaking last February's lows. The only exceptions were to be found amongst precious metal companies.

The performances of the different sectors reflect the risk aversion sentiment that prevailed:

- Precious metals outperformed. Gold equities rose 17% as measured by the NYSE Gold Bugs index (HUI), primarily driven by an 11% rally in the gold price 11%. Silver stocks were also subject to the same dynamic.
- Base metals and bulk commodities were the weakest. The HSBC Global Mining index was down 15%, while the NYSE Arca Oil index declined 18.2%.

The most relevant news for our universe was the 40% super tax announced by the Australian Government that forced the change of Prime Minister given the internal disapproval. As we write, the new PM announced a scaled back version of the resources tax which will only apply to coal and iron ore companies, excluding gold, copper and other commodities. Other major changes include: the headline rate is lowered to 30% from 40% and others so the impact on earnings will be much more limited for the industry.

During the quarter we increased the equity allocation in precious metals companies.

Investment Outlook

Global

- There appears to be little that could reinvigorate global financial markets in the foreseeable future, as the key sources of the recent economic recovery have already been exhausted. Moreover the deleveraging of the private sector in key economies has not yet shown any sign of abating, as evidenced by the relentless and broadening slowdown in monetary and credit aggregates. There seems to be real evidence that the “shock and awe” bailouts of the last eighteen months are now subject to the law of diminishing marginal returns; there is much to suggest that deflationary forces are stronger than is widely acknowledged.
- For the last several years, commodities have been driven by supply constraints, the rapid evolution of demand in emerging economies and the weakening of the dollar. Given recent developments it is possible that a different environment for commodity investing is now evolving. New themes may include (i) much greater governmental regulation and taxation on production resulting in cost-push inflation, (ii) low growth in the developing world due to high debt burdens and deleveraging, (iii) a transition for China as it addresses over investment and attempts to reorient the economy towards consumption, (iv) the consideration of certain commodities as viable alternatives to fiat money. It seems probable that a period of weakness, which may be severe, lies directly ahead for the asset class.

Metals

- Prospects for base metals during the next quarter will depend on China, a sustained draw down in commercial and exchange inventories, and a supportive environment for risk assets. Our expectations for all three sources of support during the next quarter are muted, on the basis that (i) Chinese authorities will impose whatever administrative measures are necessary to cool the property market, (ii) prices are still encouraging producers to supply metal, (iii) that risk appetite will decrease as demand stalls in the OECD and (iv) inventories of all metals are at elevated levels. Caution is warranted across these markets during Q3.
- Year to date, gold and silver have been amongst the best performers in the asset class, as well as registering new highs against many currencies from all regions of the world. Thus far, there is little evidence to suggest that the sustained strength which has been witnessed in recent times is about to dissipate; inflows into ETFs continue at a rapid pace, purchases by central banks in emerging economies will continue, and the viability of fiat currencies in the light of high debt levels is being questioned.

Equities

- Similar to previous quarter, we believe that the only subsectors that offer value at this point are precious metals and agricultural equities. In the case of precious metals, we note that the equities are trading at a low P/NAV compared to history; this is most surprising in light of the fact that the gold price is at a record high. Our view is reinforced by the fact that companies have been able to keep costs stable. Where bulk and base metal prices are concerned, they do not look particularly cheap at current spot prices in view of our outlook for the underlying commodities.

Chart Analysis

- During the last quarter, many markets appear to have been forming an important top after the large rally from the lows of early 2009. Price action has been overlapping, momentum has been slowing, and prices have failed at key retracement levels and moving averages across many markets. In addition, there is clear evidence that where strength has occurred, it has taken place on low volumes and declining open interest; this applies to major markets such as oil and copper. As such, a steep and largely unexpected decline may be about to unfold in many markets. Gold and silver are the exceptions to this conclusion.
- A temporary bottom seems to have formed in June in both the grains and oilseeds markets' charts. A seasonal rebound, or "summer rally", should now follow but will fade in the middle of the summer. The chart pattern looks extremely bullish for coffee markets. On the contrary, the bearish trend looks intact for sugar prices. The broadening formation observed in cotton prices heralds an imminent trend reversal. A significant correction should follow.

Sentiment Analysis

- There have been further adjustments in global growth expectations this past quarter, but not enough pessimism has been built in to be able to predict a sustainable improvement going forward. Hence little market positioning adjustments have taken place so far and in particular commodity allocations remain stable, making the latter vulnerable to further downward moves in growth expectations.
- The Consensus Forecast Model has provided strong signals this past quarter, indicating a break away from the consolidation patterns of previous months. It has given a broadly negative signal for energy, with the exception of natural gas. The model remains broadly positive for precious metals while turning negative for base metals.

Sentiment Analysis

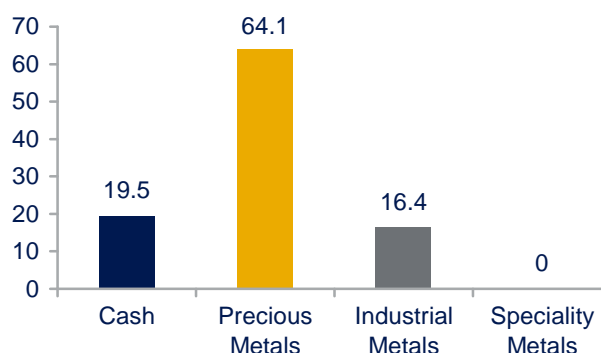
- In the metals, the lead and aluminium scores are still very negative. The copper score is neutral and the lowest since 2007. We note that the "demand score" is the lowest since 1997, which is bearish for prices. At the opposite end of the scale, zinc exhibits the highest score amongst the base metals.

Rob Howell / Rodolphe Roche / Paula Bujia / Guillermo Besaccia – 29 June 2010

Top 5 Holdings as at 30 June 2010

	%
Gold	48.0
Copper	11.2
Silver	9.8
Platinum	6.3
Aluminium	5.2

Sector Allocation as at 30 June 2010 %



Source: Schroders (top 5 holdings and sector allocation)

Fund information	Fund manager	Robert Howell / Paula Bujia
	Managed fund since	7 July 2008
	TER	Est. 1.95% for A Shares
	Launch date	7 July 2008
	Fund size	US\$192 million
Source: Schroders	No. of holdings	18

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.

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