

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.

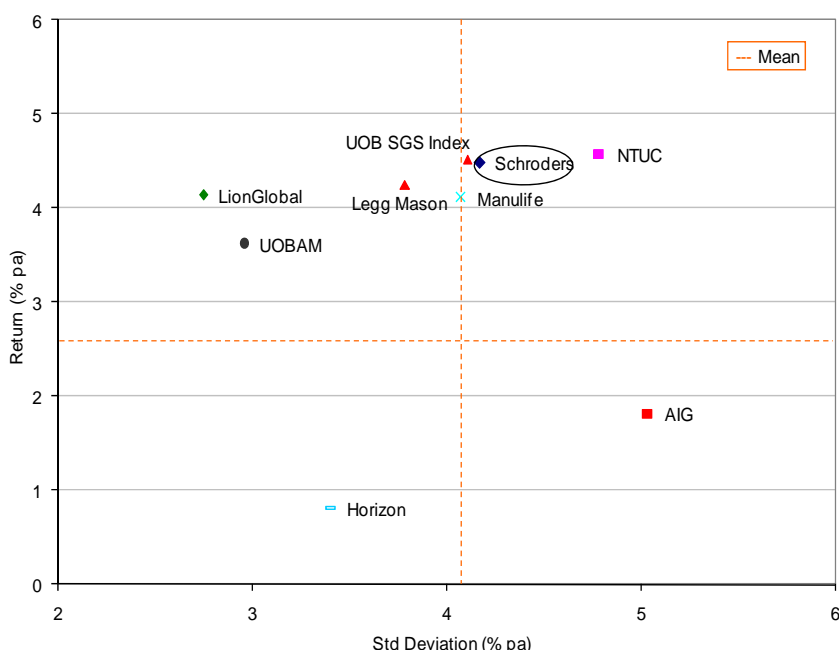
Schroders' Singapore Fixed Income

Performance as at 30/06/10	1 mth	3 mths	YTD	1 yr	3 yrs (p.a.)	Since Inception
Schroders' Singapore Fixed Income	2.00%	3.58%	3.55%	5.88%	4.49%	3.98%
UOB SGS All Series Index	1.70%	3.59%	3.48%	4.32%	4.52%	4.08%

Source: Schroders, Bloomberg, based on Schroder Singapore Fixed Income Fund, I class shares, as at 30 June 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 4.49% p.a. over the 3-year period ended June 2010 and is ranked top quartile amongst its industry peers.



Manager	Return (% p.a.)
Schroders	4.49
AIG	1.82
Horizon (DBSAM)	0.81
Legg Mason	4.25
LionGlobal	4.14
Manulife	4.11
NTUC	4.58
UOBAM	3.62
Mean ¹	2.60
UOB SGS All Series Index	4.52

Source: Lipper Hindsight as at 30 June 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 June, the strategy achieved a positive return of 2.0% and outperformed the all-government benchmark index, UOB Singapore Government Bond index, by 30bps. The fund's duration positioning at the long end of the curve was the main contributor to relative performance during the month.

The market and the drivers of performance²

After a notable and broad global risk asset sell-off in May 2010, markets' consolidative mode in early June turned rather decisively into "risk aversion" towards the latter part of the month on global double-dip concerns and persistent stresses in European banks and asset markets. UST 10-year yields fell below 3.00% (-36bp, to a new low for 2010) and global equity markets were weaker with China "A" shares also touching fresh 2010 lows. In Singapore, government bonds benefited from flight-to-quality flows with 10Y bond yields falling by 41bps resulting in a flattening of the yield curve as short rates remained relatively stable.

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 US treasury yields to continue trading with a downward bias over the next few months.

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. Singapore bonds will also benefit from a risk averse environment which we believe will continue to persist ahead. For our strategy, we will maintain low exposures to corporate credits (around 21% as at end-June 2010) and will maintain a neutral to slightly overweight duration bias in light of our defensive stance.

On the economics front, Singapore's 2Q 2010 GDP advance estimate came in at 19.3% yoy driven by strong manufacturing output, particularly biomedical production. Momentum in the construction and services sector also gathered pace with advance estimates showing 13.5% yoy and 11.4% yoy growth respectively. Non-oil domestic exports maintained a robust pace rising 28.7% yoy in June. CPI inflation accelerated to 3.2% yoy in April and May, up from 0.2% at the beginning of the year (January-2010) driven mainly by higher transportation costs.

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	1.77%
Duration	5.46 years
Average Maturity	6.41 years
Average Credit Rating	AA-

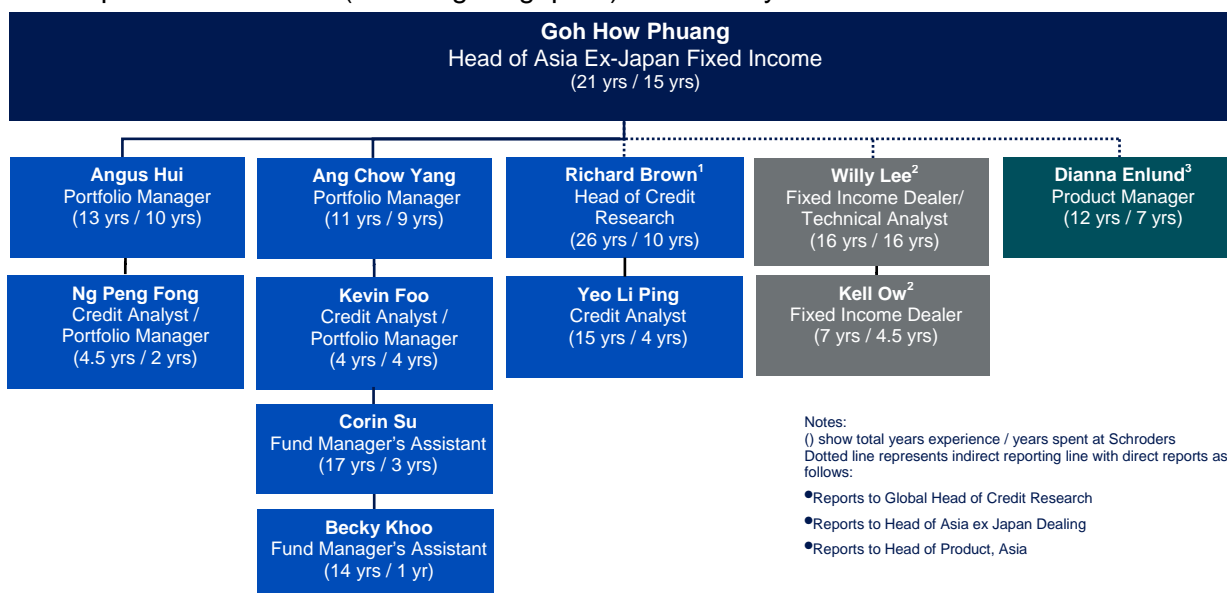
Source: Schroders, as at 30 June 2010.

The Schroders' advantage

- **One of the largest dedicated Asian/Singapore Fixed Income teams** in the world with an average investment experience of 13.5 years (as of 31 Mar 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.



Notes:
 () show total years experience / years spent at Schroders
 Dotted line represents indirect reporting line with direct reports as follows:

- Reports to Global Head of Credit Research
- Reports to Head of Asia ex Japan Dealing
- Reports to Head of Product, Asia

Low turnover within the pan-Asian investment team - only 1 departure in the last 9 years

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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