Schroder Singapore Fixed Income Fund

Fourth Quarter 2011

Market Background

The Eurozone sovereign crisis remained the dominant theme in markets during the quarter keeping investment sentiments generally negative despite some improvements in US and Europe economic data. In Singapore, the MAS maintained an appreciating bias for the Singapore dollar at its October semi-annual policy meeting in light of persistently high inflation but reduced the slope of the SGD NEER policy band to reflect downside risks to global growth momentum. Singapore's CPI remained sticky at levels above 5.0% during the quarter due to continued high accommodation and private transport costs. In this environment, Singapore government bond yields rose across the curve over the quarter after declining to the lowest level in over 10 years during Q3 (SGS 10Yr: low of 1.51% in September). Corporate bonds also declined during the month as credit spreads widened on risk aversion.

Performance

As at 31 December 2011	1 mth	3 mths	1 yr	3 yr (p.a.)	5 yr (p.a.)	Since Inception
Schroders' Singapore Fixed Income	-0.02%	-0.76%	6.16%	3.81%	4.62%	4.05%
UOB SGS All Series Index	0.02%	-0.54%	6.76%	3.18%	4.46%	4.04%

Source: Schroders, Bloomberg, based on Schroder Singapore Fixed Income Fund, I class shares, NAV-to-NAV, net of management fees, dividends reinvested, in SGD. Inception: 4 October 2005. The above is for illustrative purposes only. Past performance is not indicative of future returns.

The fund returned -0.76% over the quarter, underperforming the benchmark by 22bps. Amidst the risk adverse backdrop, credit spread widening negatively impacted the performance of corporate bond exposures in the portfolio against the all-government bond benchmark.

Outlook

Notwithstanding the current uptick in global growth data, Asia will experience slower growth this year due to a high probability of an EU recession and a US economy devoid of stimulus due to political paralysis. This will particularly impact the more export-oriented countries such as Singapore which is already feeling the impact of slowing demand from Europe and the US with a 4.9% qoq contraction (+3.6% yoy) in Q4 GDP. The GDP contraction is mainly due to weakness in the manufacturing sector particularly electronics and pharmaceuticals. In line with this, industrial production fell 25.2% mom in November (-9.6% yoy). However, domestic demand remained robust with retail sales rising 8.5% in October supported by still favourable labour market conditions and strong tourist arrivals. Singapore's headline CPI spiked back up to 5.7% yoy in November (October: 5.4% yoy) due to continued high accommodation and private transport costs.

The unresolved Eurozone debt crisis will transmit negative shocks to the global economy via economic and financial linkages. Not discounting the recent growth spurt in the US economy, the risk of policy paralysis derailing growth in the US remains high in the election year (as evidenced by the farce 2 month extension of the payroll tax cut). Against this backdrop, we like to own Singapore government bonds and selective high quality corporate bonds during periods of markets complacency, such as during the recent December. Cognizant of the more volatile and shorter cyclical cycles the world is in, we remain proactive in calibrating the duration and credit risk of the portfolio.

Note: All market data sourced from Bloomberg.