Schroders
Fund Update

Schroder International Selection Fund*
Emerging Markets Debt Absolute Return

Fund overview:

The Schroder ISF Emerging Markets Debt Absolute Return team manages global emerging market debt funds using a variety of instruments and techniques in an effort to enhance overall risk-adjusted returns. The funds' aim is to achieve high, long-term absolute returns while keeping volatility to a minimum. Specifically, the team aims to make positive absolute returns in any 12 month period. Schroders benefits from the consolidated experience and proven track-record of the Schroders Emerging Markets Debt team, led by Geoff Blanning since 1998, with a total of four professionals based in London and Buenos Aires. The team manages "absolute return" EMD funds of over ***US$7,155** million as at 30 November 2011 on behalf of private clients, institutional and retail investors worldwide.

*Source: Schroders

Schroder ISF EMD AR Performance to November 2011

% *	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	YTD
2000		3.30	2.40	-1.90	-1.52	4.66	3.55	2.35	-1.89	-0.39	1.36	3.97	16.75
2001	3.18	-0.77	-1.59	-2.59	1.24	1.67	0.12	4.30	-3.78	0.31	-0.24	0.31	1.90
2002	0.78	2.25	-0.15	4.34	3.14	2.90	-0.07	2.54	0.94	0.86	2.37	3.80	26.31
2003	1.86	0.24	-0.30	2.50	1.66	0.99	-0.64	-0.12	1.34	-0.98	-0.64	2.75	8.93
2004	-1.14	0.63	1.03	-1.19	-0.23	-0.52	0.64	-0.23	2.19	2.14	3.91	2.60	10.13
2005	-1.76	1.58	-1.50	-0.11	-0.42	0.26	0.79	-0.52	-0.37	0.63	0.21	-0.10	-1.34
2006	2.51	0.92	1.32	1.90	-1.18	-0.84	0.85	0.84	0.34	1.23	2.47	1.42	12.36
2007	-0.93	0.85	0.65	1.07	-0.09	-0.28	0.60	-1.14	2.18	2.36	0.80	-0.04	6.11
2008	1.36	1.73	1.07	-0.84	-0.85	-0.26	0.39	-2.91	-2.78	-3.45	1.41	3.15	-2.20
2009	-1.89	-2.15	1.03	3.80	6.34	0.97	2.95	0.85	3.60	1.35	1.07	-1.43	17.39
2010	0.27	-0.11	0.27	0.30	-0.99	0.65	0.15	1.56	0.11	0.52	-2.64	0.92	0.96
2011	-0.87	0.08	0.46	2.55	-1.89	-0.11	0.42	-0.30	-1.17	-0.19	-0.23		-1.33

* Performance is presented on USD A NAV NET basis

Review

- There were no major changes to our investment strategy during the month of November. The fund retains a defensive positioning in all sectors (credit, currencies and duration).
- As pressures on asset prices resumed in November, global policymakers responded with yet another short-term fix. This time, the response was in the form of a coordinated plan by six major central banks, led by the Fed, to cut Dollar swap rates by 50bps. China also appeared to have brought forward the widely anticipated RRR cut, while both Brazil and Thailand are amongst other countries which have announced a policy rate cut.
- As these actions were somewhat unexpected, markets have witnessed yet another "short squeeze". EM currency debt, as measured by the GBI-EM index, retraced most the losses experienced during the month of November. EM Sovereign and Corporate debt have also seen similar retracements.
- As has been the case many times this year, we are yet again faced with the following question: Do these policy actions and market moves represent a major turnaround? We still don't believe this to be the case. In currency markets, our ***Chart Analysis*** has not yet identified patterns that could signal a convincing broad based trend reversal. In fact, we are still generally witnessing sharp down moves followed by consolidations, which supports the idea that the downtrend initiated this summer, is still firmly in place. The same could be said about the long-term chart outlook for EM corporate bonds.

** Schroder ISF Emerging Markets Debt Absolute Return is referred to as Schroder ISF EMD AR throughout this document.*

- We also believe that this week's policy actions will do little to arrest the firmly entrenched deleveraging dynamics that the global financial system is undergoing. Our ***Quantitative Analysis*** continues to highlight that the level of leverage in the financial system (particularly in Europe) remains unsustainably high. Other Balance Sheet mismatches which remain unresolved relate to the size of the so-called global carry trade, funded predominantly in US Dollars. A symptom of this can be found in the large Net Foreign Liabilities of the banking systems in a number of carry recipient countries, such as Brazil, Turkey, Hungary and many others. The recent coordinated actions by major central banks may provide Dollars at cheaper rate to accommodate these mismatches, but this does not make them disappear. This is one of the reasons why we still believe that the US Dollar will broadly be well supported and that a number of EM currencies could remain under pressure.
- The issue of deleveraging and the need to reduce FX mismatches is clearly starting to negatively affect EM economies. Unsurprisingly, the Finance Minister of Poland has complained during the month that "*deleveraging is not a way of achieving the required level of capital strength*". His comments are obviously an attempt to persuade European banks and regulators to not follow the example of Austria, which imposed restrictions on their national banks' lending to Eastern Europe. Brazil has also responded to the growing scarcity of foreign capital by abolishing some of the taxes previously imposed on capital inflows. We consider these measures to be futile.
- Our ***Fundamental Analysis,*** based on recent detailed country reviews, remains negative on both the policy and growth outlook for key EM economies. China is experiencing a noticeable slowdown in economic activity, as shown by PMIs published below the 50 level. Central European countries have also reported a marked fall in orders and sticky inflation. India had been widely expected to be relatively immune to the global financial stresses, thanks to the country's reliance on domestic demand. That is clearly not the case.
- Indeed, India is experiencing both a steep fall in manufacturing activity and in investment. In addition, there is a clear contraction in mining production and the services sector is equally just starting to suffer. We have noticed that most observers in India are in denial about this slowdown. Most consider that with growth now at 7%, a sort of a floor has been reached and activity should soon reaccelerate when the Reserve Bank of India starts easing policy.
- In this regard, while gloom remains prevalent towards Europe, investors are still broadly constructive on the outlook for EM debt. This is the reason why our ***Sentiment Analysis*** still concludes that EM asset should underperform in the period immediately ahead. We can already notice that the market performance of two key EM countries (China and India) has not been particularly impressive during the bounce in global markets at the end of November. Chinese domestic stocks are only 2% away from their 2011 lows. A similar observation could be made about the performance of the Indian Rupee.

Asset Allocation as at 30 November 2011

Holdings as at 30 November 2011

	Exposure	Duration
China	0.4	2.8
Mexico	0.7	1.2
Poland	1.3	0.6
External Debt	**2.4**	
China	6.0	0.3
Czech Republic†	7.4	1.3
Indonesia†	5.7	3.0
Korea†	3.7	2.2
Japan	3.0	0.2
Malaysia†	5.8	1.9
Mexico†	7.9	1.0
Poland†	4.0	0.7
Singapore†	11.2	1.0
South Africa†	1.9	1.9
Taiwan†	0.7	0.4
Thailand†	2.0	1.4
Local Debt	**59.3**	
Cash	38.3	
Cash	**38.3**	

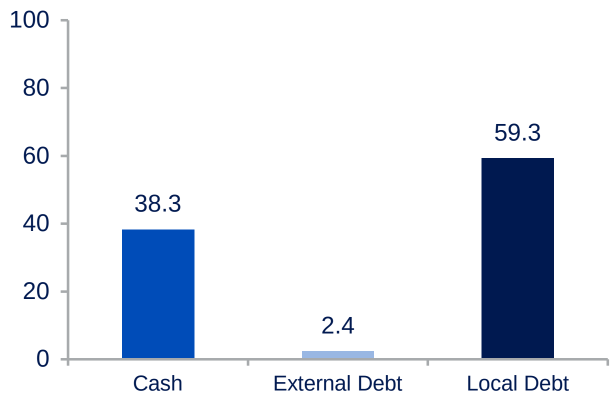
†Hedged
^Partially Hedged
Source: Schroders

Performance Overview

Since Jan 2000	Fund	EMBI+	ELMI+**
Annual Rate of Return %	7.77	11.09	7.29
Annual Volatility %	6.06	10.25	7.56
Sharpe Ratio	0.91	0.89	0.68
Sortino Ratio	1.64	1.05	0.74
Correlation	1	0.56	0.61
Positive Quarters %	73.91	71.74	71.74
Maximum Drawdown %	-10.29	-19.71	-19.93
Best Month %	6.34	8.52	5.03
Worst Month %	-3.78	-13.79	-8.73
Max 12M Rolling Return %	27.66	40.19	20.29
Min 12M Rolling Return %	-8.98	-18.15	-13.87

* Since inception of current fund manager
** ELMI to 31.01.02 (Index discontinued)

Sector Allocation as at 30 November 2011 %



Fund Summary	%
Yield to Maturity	1.00
USD Exposure	90
Duration (years)	0.79
Average Credit Rating	AA-
Corporate Exposure	0

Schroders

Investments in emerging markets are subject to market risk and, potentially, liquidity and currency exchange rate risk. Investments in

debt securities are primarily subject to interest rate, credit and default risks and, potentially, to currency exchange rate risk.

This fund may use financial derivative instruments as a part of the investment process. This may increase the fund's price volatility by amplifying market events. Investments in absolute return funds are primarily subject to interest rate, market, liquidity, credit and default risks and, potentially, to currency exchange rate risk.

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