


Schroder BRIC Fund – Fund Update – May 2007

Market Background

Brazil



- Ministers from Brazil met their counterparts from the US, the EU and India in a bid to accelerate the progress of the 'Doha round' of global trade negotiations.
- French retailing giant Carrefour agreed to buy Brazilian retail chain Atacadao in a US\$1.1bn deal.
- Brazilian energy group Petrobras is in talks with Japanese trading company Mitsui & Co about supplying Japan with up to 800 million gallons a year of ethanol within four years. In Brazil, the biofuel is generally produced from sugar cane.

Russia



- Mergers and acquisitions in Russia reached record highs in 2006, according to a report from accountancy major Ernst & Young. The value of Russian M&A activity increased by 41% last year to US\$71bn.
- UK insurance group Aviva is to set up a direct-sales network in Russia, attracted by the country's growing wealth. Aviva aims to become one of Russia's top-five insurers by 2012.
- VTB, Russia's second-largest bank, unveiled plans for a multi-billion dollar IPO, with listings in Moscow and London.

India



- Indian IT group Infosys Technologies delivered a 70% increase in quarterly profits, driven by factors including strong growth in outsourcing orders.
- German automobile manufacturer BMW opened its first assembly plant in India to cater exclusively for domestic customers. The move reflects continuing growth in demand in India for luxury goods.
- India's ICICI Bank announced plans to raise US\$5bn in a new share issue.

China



- China has taken the place of the US as Japan's largest trading partner. Japan's exports to China in the fiscal year ended March grew by 21% - almost twice the rate of growth of exports to the US.
- Automobile sales increased by 35% in China last year, making it the fastest growing major car market in the world.
- China's foreign exchange reserves, already the world's largest, grew to US\$1.2 trillion in the first quarter of this year.

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India delivered the strongest returns among the BRIC markets over the month, with local currency strength having a sizeable positive impact on performance in US dollar terms. Returns from the Brazilian market were also ahead of the BRIC index. The country's central bank reduced interest rates by 25 basis points to 12.5%, continuing with its policy of monetary easing. Other economic news included the release of data showing Brazil recording a current account surplus of US\$817m in March and retail sales growth of 9.4% year-on-year in February. The Chinese market delivered a good absolute return although performance was behind the BRIC index.

Data for the first quarter of the year showed Chinese GDP growth accelerating to 11.1%, fuelled by robust domestic consumption and rising exports. In other developments, the People's Bank of China continued to tighten monetary policy, announcing two 50 basis point increases in the reserve requirement ratio. Russia was the weakest performing BRIC market despite a strong oil price rally in the latter part of the month. In other developments, data was released showing industrial output growth of 7.9% year-on-year in March.

Country

India	12.1
Brazil	6.3
China	3.8
Russia	-2.7

MSCI EM BRIC Gross Index returns by country (US\$%) 1 month to 30 April 2007

India
Brazil
China
Russia

**Source: Schroders, MSCI*

Current Strategy

We are positive on the outlook for the BRIC markets. Our base case scenario remains a soft landing for the global economy in 2007. This mid-cycle pause is expected to be followed by a reacceleration of global growth next year. The emerging economies are also experiencing a shift in the balance of growth towards domestic demand and are likely to continue to deliver growth well above that of developed markets. This strength of the emerging economies, which have become less reliant on the US growth, is supporting markets, while valuations are, broadly speaking, not expensive and earnings growth is generally solid.

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Fund (%)	Index (%)			
27.7	25.9	Russia		1.8
29.6	28.2	Brazil		1.4
29.0	29.1	China	-0.1	
13.5	16.8	India	-3.3	
0.2	0.0	Cash		0.2

Country positions versus MSCI BRIC Gross Index (TR)

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